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THE BANK OF ENGLAND
1694-1944

There are so many people who never look over their shoulders, as it were, back along the road they have come, but only forward to where they are going, or where they think they are going. This is to cut life into two halves—it is to sever the tree from its roots and so destroy all hope of growth.

ESTHER MEYNELL (1942)

“ . . . it will be found that in the relation between the Treasury and the Bank of England and through the Bank of England with the big banks, the Government have been able to devise in this imperfect world about as perfect a system for working this part of our financial machinery as could be found.”

SIR GEORGE SCHUSTER, M.P., in the House
of Commons (February 3, 1943)



FIG. 1. SIGNING OF THE CHARTER OF FREEDOM

1215. The signing of the Charter of Freedom, which was the first step towards the establishment of the English constitution.

Com. At
**THE
BANK OF ENGLAND
1694-1944**

**AND
ITS BUILDINGS PAST AND PRESENT**

**BY
REGINALD SAW**



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PREFACE

A noted economist was once asked whether he could explain how it was that economists were never able to agree on one solution to a given problem but invariably differed. His reply was: "The economic mind is a rare gift, and those who are fortunate enough to possess it are able to move freely in media of thought which are incomprehensible to the ordinary mortal." This book has but one aim: to tell in non-technical language a straightforward story of the Bank of England and describe *such of its public offices as are open to the ordinary caller on business. (In war-time the Bank is not open to sightseers.¹)* In the course of the story, as the relations between the Bank and the Government become closer, it is difficult to put events into their proper perspective without providing a certain amount of historical background. The difficulty always is to prevent the background from becoming the foreground.

Ever since its second year the Bank has had its critics; attempts have been made in Parliament to wind it up altogether, and schemes to nationalize it date from the days of Ricardo down to 1944. Lord Keynes has argued that Bagehot, when he pointed out the duties of a Central Bank and got his ideas accepted, nationalized the Bank seventy years ago. Another writer has said: "There is something more national about the Bank than about many a newer institution that bears the adjective for its title. The Old Lady may not be eternal. But she has a way of looking as if she were."²

Considerable use has been made of quotation, with references, much for Montaigne's reason: "For I make others to relate (not after mine owne fantaisie, but as it best falleth out) what I cannot so well expresse, either through unskill of language or want of judgment."

The Bank of England from Within (1931), by Mr W. Marston Acres (a member of the Bank's staff who had access to the records),

¹ The Court Room Suite is always strictly private.

² R. H. Mottram, in *The Banker*, September 1926.

is an invaluable source of facts on all staff matters, and my thanks are due to the author for valuable advice and permission to use some of his material. Every student of recent financial history owes a debt of gratitude to *The Economist* and the financial articles by those acknowledged experts, Mr Oscar Hobson, Dr Paul Einzig, Mr F. W. Hirst, and Mr Norman Crump. My thanks are due in particular to the Editor of *The Old Lady of Thread-needle Street* (the Bank's house magazine) for permission to use material found therein, and to Messrs Nicholson and Watson for permission to quote from Mr Lloyd George's *War Memoirs*; also to Mr J. Neck for the diagrams at pp. 134, 135.

R. S.

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CHAPTER I

WHY THE BANK WAS FOUNDED: THE HISTORICAL BACKGROUND

Whenever any principle, be it what it may, tends to the establishment of absolute domination in Europe, there is invariably opposed to it a vigorous resistance, having its origin in the deepest springs of human nature.

LEOPOLD VON RANKE, *History of the Popes*

The Bank of England was founded in the year 1694 (5 & 6 Wm. & M.) to provide funds to assist King William III in his war against Louis XIV.

Two questions arise out of this: (1) What political and military events led up to this war, and (2) what financial events made appropriate the founding of a Bank in intimate association with the State?

In 1567 the Duke of Alva was appointed Governor of the Spanish Netherlands, and during the following six years he persecuted the Protestant and Flemish Nationalists with ruthless severity. Among those who fled to England to escape Alva's terrorism was Jean Houblon, grandfather of the first Governor of the Bank of England.

After the Dutch Republic had won its independence it was threatened by the growing power of France under Louis XIV. All the high offices of the Republic were united in the young Prince William of Orange. When James II was suspected of wishing to assist Louis XIV to make Roman Catholicism the religion of Europe and the birth of the "Old Pretender" threatened the possibility of a Catholic succession to the English Crown, the Whig Opposition sent a secret appeal to Prince William to intervene. William had to decide whether he could take the risk. If he went to England and failed to gain public support against James he would have weakened the forces of the Dutch Republic

and left it at the mercy of Louis XIV. On the other hand, if he succeeded he would have all the resources of England at his disposal for continuing his long feud with France. Louis XIV was aware of the situation, yet did nothing to support James or hinder William, being convinced that William would fail. As a matter of fact, had he threatened to invade the Netherlands William would never have dared to move.

William landed at Torbay on November 5, 1688, and after the crown had been formally offered to him and his consort the executive power was vested in him alone and he became the head of a great Coalition against Louis XIV. A formal offensive-defensive alliance between England and the Dutch Republic was signed.

The Financial Causes

Up to the time of the Stuarts the Crown relied for its income on the Royal Domain (rents and dues) and grants from Parliament for special purposes. As the Royal Domain shrank and the cost of government increased the Crown became more and more dependent on grants from Parliament. The Stuarts attempted to raise funds by granting monopolies, by Ship-money, by appeals for loans to the King of Spain, the Pope, and the City of London, by threatening to debase the coinage, and by seizing bullion in transit on foreign account lying in the Tower of London. This latter act so shook the confidence of the mercantile community that the merchants took their money to the goldsmiths, who became deposit bankers for their customers, for whom they discounted bills. Charles II and James II went to the goldsmiths for loans on current revenue, later for loans on still more remote revenue, and the interest rates went up to 20 and even 30 per cent. A large part of these loans was never repaid and, as "the King's Debt," became the nucleus of the National Debt (£644,000 in 1688). Some of the money lent by the City Corporation was trust money held for the orphans of City freemen. The repayment of this caused the downfall of William Paterson. When William III became King he asked the City of London for a loan

of £100,000 to finance his war against France; only £70,000 was forthcoming, and the balance was treated as commission and premium. In 1692 Charles Montagu, then a Commissioner of the Treasury, authorized a Tontine Loan at 10 per cent. interest, but only £108,000 was obtained in this way. The 10 per cent. was raised to 14 per cent. and the subscriptions rose to £881,493. The Budget for that year was £5,000,000 (for a population of five and a half millions, of whom about four millions lived on the land), and half that sum was required for the Army alone. Montagu tried a Lottery Loan at 10 per cent. interest; this brought in £1,000,000—only half the Government deficit. The problem of covering the other half seemed insoluble. It was then that he decided to take up a proposal made to him and the King some years before by William Paterson, to allow a group of persons willing to subscribe £1,200,000 and lend it to the Government to form themselves into "the Governor and Company of the Bank of England."



1694

MEDALLION FROM A HUNDRED-POUND NOTE

CHAPTER II

WILLIAM PATERSON

When Nature has work to be done, she creates a genius to do it.

R. W. EMERSON, *Methods of Nature*

Although the inscription beneath the statue of King William III in the Hall of the Bank in 1735 described that monarch as the "Founder," it is clear that this was more flattery than a statement of fact, and, as Dr Johnson remarked, "in lapidary inscriptions a man is not upon oath." His Majesty had patronized the Bank because it appeared likely to provide him with funds for his foreign wars, but he was equally ready to patronize the Bank's rival (the Land Bank) if that also might provide him with funds.

The man of genius who put forward three schemes for a national bank was a Scotsman named William Paterson. But his idea could never have become incorporated in an Act if he had not had the support of the all-powerful Whigs in Parliament and the City of London. Fortunately, his final scheme was sponsored by Montagu and Michael Godfrey. Paterson, Montagu, Godfrey, and Sir John Houblon were the real 'founders' of the Bank of England.

William Paterson was born in Dumfriesshire about the year 1658, and went to America for a few years (some said as a missionary, others said as a buccaneer—but history records that buccaneering in youth has not prevented one Englishman from becoming a bishop). In 1681 he was in London and became a member of the Merchant Taylors Company. But before settling down as a City merchant in London he went to the West Indies and visited Hamburg and Amsterdam, two of the great banking centres of the Continent. In 1691 he proposed to form a company to lend a million pounds to the Government at 6 per cent.

(plus £5000 a year "management fee") with the right of note issue, and such notes to be legal tender. This offer was put before the House of Commons in January 1692 and rejected, as was his second offer to lend two millions. Montagu preferred to try a Lottery Loan, and, when this failed to fill the deficit in the Exchequer, he asked Paterson to draw up a third scheme, the principles of which were embodied in the Tunnage Act of 1694.

Paterson's career after 1694 need be only briefly sketched here. He became one of the original Directors of the Bank, but in the same year supported a banking scheme to raise a loan to repay those trust funds of orphans which the City Corporation had lent to the Stuarts and lost. This in itself laudable object was promoted by enemies of the Bank who had already petitioned Parliament to dissolve the Bank, saying it was "ruinous and destructive to Trade in general, injurious to H.M. Revenue," etc. (Burnet records that this petition "was rejected in both Houses with indignation.") But the Bank's Directors were of opinion that by allying himself with their avowed enemies Paterson was guilty of conduct "not becoming a Director of this Court but a breach of his Trust." He at once sold his qualification stock and so ceased to be a Director.

His subsequent career was largely devoted to the "Darien Scheme" (an ingenious plan for colonizing the Isthmus of Panama, "that narrow neck of land between two worlds"). Of this he wrote :

The expense of navigation to China, Japan, the Spice Islands, and the greatest part of the East Indies, will be lessened more than half, and the consumption of European commodities and manufactures will soon be more than doubled. Trade will increase trade, money will beget money, and this trading world shall need no more to want work for their hands, but will rather want hands for their work.

Shiploads of hopeful Scottish emigrants (Paterson among them) sailed to found a "New Edinburgh" in Panama. Half the wealth of Scotland was poured into this enticing scheme. But the vile climate and other causes robbed the expedition of all prospects of success, and the Darien Scheme drifted to ruin.

Paterson never really recovered financially or in prestige after this. He became the first M.P. for Dumfries Burghs after the Act of Union in the reign of Queen Anne, and was awarded a Government bounty of £18,241 "for public services" immediately after the accession of George I, but there is no evidence that he actually received it. He died in London in 1719 at the age of sixty-one and was buried in a churchyard in his native Dumfriesshire.



1695

MEDALLION DESIGNED FOR BANK NOTES

CHAPTER III

HOW THE BANK WAS FOUNDED

It was . . . not easy to guess that a Bill which purported only to impose a new duty on tonnage for the benefit of such persons as should advance money towards carrying on the war was really a Bill creating the greatest commercial institution that the world had ever seen.

LORD MACAULAY, *History of England*

In 1693 the House of Commons had passed a favourable opinion on a scheme for a Land Bank, sponsored by the Tories. In 1694 Montagu, a Commissioner of the Treasury and one of the most gifted Whig politicians of the day, chose the method of indirect approach by grafting Paterson's idea of a Bank on to a Bill placing certain taxes upon the tonnage of vessels and on alcoholic beverages. The purpose of the Bill was described to be

for granting to Their Majesties several Rates and Duties upon Tunnages of Ships and Vessels and upon Beer, Ale, and other Liquors; for securing certain Recompenses and Advantages in the said Act mentioned to such Persons as shall Voluntarily Advance the sum of Fifteen hundred thousand Pounds towards Carrying on the War against France.

The promoters of the loan were authorized to raise £1,200,000 by subscription, and the subscribers were to form themselves into a Corporation to be entitled "The Governor and Company of the Bank of England." The whole of this capital was to be lent to the Government at 8 per cent. interest, plus £4000 a year for management expenses—in short, for an annuity of £100,000 a year. The Corporation was to have the privileges of a bank (*e.g.*, note issue) authorized by Royal Charter until August 7, 1715, but then terminable by the Government at one year's notice and repayment of the amount advanced and all arrears of the annuity. It was forbidden (without the consent of Parliament) to advance money to the Government or to borrow or owe

under its common seal more than its capital and, "to the intent that their Majesties' subjects might not be oppressed" by the Bank acquiring a monopoly of any sort of goods, it was forbidden to trade in any merchandise, but was allowed to deal in bills of exchange, gold or silver bullion, and to sell any unredeemed pledges given as security for loans. A subscriber's holding was limited to £10,000 up to July 1, 1694, and was not to exceed £20,000 afterwards, but deposits were to be withdrawable at any time. The debate on the Bill was lively. The Tories feared it would lead straight to Socialism:

Another tells us that in all his peregrinations he has never met banks but only in Republics. And if we let them get footing in England we shall certainly be in danger of a commonwealth.¹

Bishop Burnet relates that

Some thought a bank would grow to be a monopoly, all the money in England would come into their hands, and they would in a few years become the masters of the stock and wealth of the nation.²

Some of the Whigs feared it would lead back to Royal absolutism by the King obtaining money directly from the Bank and so escaping the financial control of the House of Commons. This was, however, prevented by inserting a clause that the sanction of Parliament must be obtained before the Bank lent money to the Government. (Pitt ignored this clause during the Napoleonic Wars and nearly ruined the Bank.)

A powerful advocate on the other side (but he died in 1687) was Sir William Petty, who, in *A Tract concerning Money*, had written:

What remedy is there if we have too little money? . . . The answer is we must erect a Bank, which well computed doth almost double the effect of our coined money: and we have in England materials for a Bank which shall furnish stock enough to drive the trade of the whole commercial world.³

Michael Godfrey, one of the most esteemed and affluent merchants in the City, endeavoured to allay the fears and prejudices

¹ Paterson, *Brief Account of the Intended Bank of England* (1694).

² *History of His Own Times* (posth., 1724-34).

³ *Quantulumcumque: A Tract concerning Money* (1682).

of the landowners (mostly Tories) by explaining that the Bank would be able to lower the interest on money and raise the value of land by a hundred million pounds. Paterson himself published a short dissertation in 1694 to support his scheme, explaining its economic purpose and emphasizing the strong position it would win for itself; and he ended his treatise with a scornful kick at his (Tory) opponents, whom he describes as

Jacobites who apprehend it may contribute to lessen their monarch of France, with some few usurers and brokers of money; and the third sort are commonly such as have not wherewith to trade, unless it be like Haman of old, for whole nations or peoples at once.¹

The Tunnage Bill passed the House of Commons without a division. (It is said that only forty-two members were present.) The financial situation was precarious, there seemed to be no alternative, and the King was waiting impatiently to go to the Low Countries. The Bill passed the House of Lords by a majority of twelve and became an Act (5 & 6 Wm. & M. c. 20). Writing in his diary on April 24, 1694, Evelyn remarks: "A publick Bank of £140,000 [*sic*] set up by Act of Parliament among other Acts & Lotteries, for money to carry on the war."

The subscription list was opened on June 21, 1694, at Mercers' Hall, Cheapside. The sum of £900,000 was subscribed in four days, the remainder a few days later.² The Lords of the Treasury subscribed £10,000 on behalf of the King and Queen, but most of the money came from the wealthy Whig merchants of the City; among the smaller subscribers were Thomas Guy, founder of Guy's Hospital, William Paterson, the begetter of the idea of the Bank, Sir Godfrey Kneller, the painter, and Cloudesley Shovel, afterwards Admiral. Writing again in his diary on July 1, 1694, Evelyn notes:

The first greate Bank for a fund of money being now establish'd by Act of Parliament was fill'd and compleated to the sum of £120,000 [*sic*], put under the government of the most able and wealthy citizens of London. All who adventur'd any sum had 4 per cent., so long as it lay in the Bank, and had power either to take it out at pleasure, or transfer it.

¹ *Op. cit.*

² 60 per cent. paid up, 40 per cent. uncalled until 1696-97.

Directly the capital was subscribed, the Bank's Charter was granted, dated July 27, 1694, and the Directors sworn in before Sir John Somers, Keeper of the Great Seal, at Powis House, Lincoln's Inn Fields. A large panel painting in the Royal Exchange (which is reproduced as the frontispiece to this book) purports to depict this scene. It was painted in 1904 by Mr George Harcourt, R.A., and donated by members of the Stock Exchange. It shows Sir John Somers administering the oath to Sir William Gore, while Sir John Houblon, Michael Godfrey, and William Paterson are among those looking on. The leafy Fields of Lincoln's Inn are seen through the two open windows.¹

The Bank was to be managed by a Governor, Deputy Governor, and twenty-four Directors, who must be British-born or naturalized subjects and possess qualifying shares of capital stock (minimum amounts were: Governor £4000, Deputy Governor £3000, Director £2000). The Governor, Deputy Governor, and twenty-four Directors form the "Court of Directors" (who manage the Corporation), and the holders of capital stock form the "Court of Proprietors" (or "General Court"). "General Courts" were to be held quarterly.

The first Governor was Sir John Houblon (a "Grocer"), the Deputy Governor was Michael Godfrey (also a "Grocer"), and among the other Directors were two brothers of the Governor and William Paterson, "the man with the idea." Sir John Houblon was the grandson of a Flemish refugee,² and his grandfather and father had become prosperous City merchants. His father, James Houblon, had been head of the French colony in London. Sir John Houblon became a Lord of the Admiralty in 1694, Lord Mayor of London in 1695, and Master of the Grocers' Company in 1696. In business he was head of an important shipping and trading house, and this brought him into contact with Pepys.

¹ Powis House, town residence of the Earl of Powis, a Catholic who was accused of complicity in the Popish Plot by Titus Oates, was forfeited to the Crown and made an official residence of the Lords Commissioners of the Treasury. Occupied by Sir John Somers in 1694, it suffered various alterations under succeeding owners until 1930, when it was reconstructed to its original design by Sir Edwin Lutyens, R.A. It is now known as No. 66 Lincoln's Inn Fields, and occupied by Messrs Farrer and Co., solicitors.

² See p. 11.

Pepys occasionally put a King's ship at the disposal of the Houblons for their overseas trading, and mentions them several times in his diary. Sir John Houblon¹ and most of his family



1694

“ THE OLD LADY OF THREADNEEDLE STREET ”

Design embossed on the sides of the Bank's books in 1694 :
 “ Britania sitting & looking on a Bank of mony ”

were buried in the church of St Christopher-le-Stocks, then next to the Houblon mansion in Threadneedle Street. The first Deputy Governor, Michael Godfrey, another wealthy and

¹ The “ Old Lady's ” first ‘ husband. ’ He ‘ governed ’ her for three years. She has had many ‘ husbands ’ since !

influential City merchant, was also a member of the Grocers' Company, but he held office in the Bank for less than a year. In May 1695, when King William was besieging the city of Namur in Flanders, the King was so urgently in need of £200,000 to pay his troops that he sent an urgent appeal to the Bank to send him this money. Michael Godfrey and a few others went out to establish an agency at Antwerp for providing money to pay the Army in Flanders. While inspecting a trench with the King, Godfrey was struck by a cannon-ball and instantly killed. He was buried in the church of St Swithin (London Stone), Cannon Street, but the beautiful memorial erected there to his memory perished by fire during the air raids on London in 1940.

The Charter allowed the Bank to circulate notes only up to the value of its capital (lent wholly to the Government). It conferred no monopoly, and the holders of the notes had no guarantee of conversion into gold, nor were the notes legal tender. The first "Running Cash Notes," as they were then called, were written by hand on paper bought from a stationer and bore interest (which led to fluctuations in their value). They could be cashed for part of their face value, if desired, and endorsed with the amount paid off. They were, of course, encashable without limitation of time. A couple of centuries later a man who held one of these old partially paid notes presented it for payment of the balance and asked to be allowed to keep the old faded note as a souvenir. He was told that once paid it became the property of the Bank. He thereupon asked to be paid the balance less one penny, for which he retained the note as his security.¹

Once started, the future of the Bank was bound up with that of the Whigs, the Government, and the Protestant Succession. The Bank, wrote Macaulay,

must have instantly stopped payment if it had ceased to receive the interest on the sum which it had advanced to the Government; and of that interest James would not have paid one farthing. . . . The advantages of the modern system were felt every hour of every day in every part of London; and people were no more disposed to relin-

¹ Maberly Phillips, "The Bank of England: a Lecture" (1920).

quish these advantages for fear of calamities which occurred at long intervals than to refrain from building ships for fear of hurricanes.¹

The Bank was hardly two years old before it had to withstand one of the severest blows in the whole of its history. It had to hand over its holding of coin in exchange for new: the old coins being valued by weight and the new ones by face value. This meant a loss of about half of its coin by the Bank. When William III came to the throne the state of the metallic currency was deplorable; some coins of the Plantagenets and Tudors were still in use, generally defaced and clipped. Even iron, gun-metal, or silvered copper coins of the Stuarts were in use. In fact, the silver coins had been so clipped and worn that they had lost half their metallic weight. In December 1695 £300 in current silver coin demanded from London goldsmiths and which should have weighed 1200 ounces was found actually to weigh 624 ounces. As Adam Smith wrote in his *Wealth of Nations* (1776):

Such operations [*i.e.*, paying debts with debased or clipped coins] have . . . sometimes produced a greater and more universal revolution in the fortunes of private persons than could have been occasioned by a very great public calamity.

Montagu, who had by now become Chancellor of the Exchequer, realized that the real remedy was to restore the coinage. Accordingly, in 1696 he secured the passing of an Act ordering a recoinage of the whole metallic currency, and Isaac Newton was appointed Master of the Mint. This recoinage cost the Government £3,000,000 (then an enormous sum equal to the whole revenue of a normal peace-time year) and took three years to carry out. The process was slow and the coins scarce, so that at times the Bank was greatly hindered in converting its notes.

Many holders of Bank notes wanted to exchange them for good milled money. The Bank was unable to make full payments; and as soon as the notes were found to be not fully convertible they fell to a discount which amounted to 24 per cent. in February 1697.²

To strengthen its position in 1696 the Bank called up half of its unpaid capital, thus bringing the paid-up capital to 80 per cent. of the whole.

¹ *History of England*.

² F. W. Hirst, *Money* (1933).

CHAPTER IV

1696-97: THE LAND BANK

But 'tis the talent of our English nation,
Still to be plotting some new reformation.

DRYDEN, Prologue to Lee's *Sophonisba*

The Tories, led by Harley and Foley, representing the landed interests (including most of the squires and clergy and all who looked upon the City Whigs as "Puritan usurers"), determined to set up a rival to the new Bank of England. To assist the birth of this rival they found a spurious financial genius named Dr Chamberlen (generally identified with the Court Physician to Charles II who had been summoned to attend James II's Queen at the birth of the "Old Pretender"). He submitted a scheme for a Land Bank to the House of Commons in 1693, and on February 10, 1696, the House sanctioned it. A clause in the Act excluded persons concerned in the Bank of England from subscribing to the Land Bank. Bank of England stock fell from 107 on January 31, 1696, to 93 on February 7, and 83 on February 10. Locke, the great analytic philosopher, who held £500 in Bank stock, was alarmed. In a letter he said, "How a Land Bank shall supply the King with ready money I doe not well see."

The Land Bank was to raise a loan and issue notes secured on freehold land. Land, not gold, was to be the basis of its paper currency, but as land cannot be paid out over the counter the notes were to be inconvertible. Land producing £1000 a year mortgaged to the Land Bank for twenty years was to bear an issue of £20,000 in notes. Mortgaged for a hundred years, it was to be the basis for £100,000 in notes. In short, a 'ceiling' could not be reached until all the land of England was mortgaged to the Land Bank. The fatal flaw in the scheme was the assumption that the value of land increases the longer it is mortgaged. But, in fact, land was worth twenty years' purchase at that time,

even it were mortgaged for eternity, as explained in Macaulay's *History of England*.

However, money was urgently needed again for the war in Flanders, and the Land Bank scheme was authorized. William III was royally impartial and subscribed £5000 to the rival of the Bank of England. The City, that stronghold of Whig tradition, disapproved of the Land Bank, and the subscription was a complete failure. Six months later the Land Bank had ceased to exist, but the Government's need for further funds remained.

Consequently, the Bank was asked to give its views on how to raise more credit. The Directors urged the speeding up of the recoinage, repayment of funds already given, and a veto on the excessive discount rates on depreciated tallies. An inquiry was made into the solvency of the Bank, and its solvency was proved. Whereupon the Bank was asked whether it could lend a sum of £2,564,000 on the security of the salt duties in order to improve the value of public tallies. For various reasons the Bank felt itself unable to raise so large a sum, but eventually an Act was passed in 1697 to enable a loan to be made. The Bank was authorized to obtain subscriptions (£1,001,171 was obtained) and to add this sum to its capital; subscriptions might be made up to four-fifths in tallies and one-fifth in Bank notes, and subscribers were to become stockholders in the Bank. Interest at 8 per cent. was offered on the tallies guaranteed by a tax on salt. In exchange for this assistance the Bank's Charter was renewed until 1711, and "*no other Bank or any Corporation in the nature of a Bank . . . shall be . . . established . . . by Act of Parliament within this Kingdom,*" during the continuance of the Bank of England—in short, *within these limits*, a banking monopoly was granted. The issue of notes on the original *and* new capital was approved, the Bank's property was exempted from taxation, and the forgery of its notes was made a felony (death penalty) "without benefit of clergy." The original capital (already 80 per cent. paid up) was to be fully paid before the new subscription list was opened. The total amount of new capital subscribed, just over a million pounds, was repaid in instalments so that by March 1707 the new stock of 1697 had been extinguished, but it remained on the books of

the Bank's capital. Another result of this flotation was that the Bank's own stock rose to par.

The Act of 1697 did not forbid the foundation of other joint-stock companies, nor of trading companies undertaking banking business. The Bank's monopoly of joint-stock banking (by more than six partners) was not definitely established until 1708. In 1704 a mining company calling itself The Company of Mine-Adventurers of England functioned as a bank of issue and started to issue its own bank notes. The mistake which the Bank made at this early point of its history was that it failed to open provincial branches and organize country credit.



1697

FROM AN OLD RECEIPT FORM

CHAPTER V

1697-1714: THE BANK DURING MARLBOROUGH'S CAMPAIGNS

Inur'd to suffer ere he came to reign,
No rash procedure will his Actions stain.
To bus'ness ripened by digestive thought,
His future rule is into Method brought:
As they who first Proportion understand,
With easie Practice reach a Master's hand.

JOHN DRYDEN, *Astræa Redux*

During the next twenty years the Bank had to assist the State to finance one of the greatest military struggles on the Continent, to survive the transfer of political power from the Whigs to the Tories, to ward off new threats of competition, and acquire further powers to develop its own business. The Bank was growing up.

The Treaty of Ryswick in 1697 brought to an end William III's feud with Louis XIV, which had added sixteen million pounds to the new National Debt. A few years of peace followed, and prosperity seemed definitely to be returning—so definitely that one of the Bank's enemies in Parliament brought in a Conversion Scheme whereby a new Company should be formed to lend the Government enough money at 5 per cent. to pay off its debt to the Bank and the East India Company. This proposal was being debated when the international situation again became dangerous. Charles II of Spain died childless on November 1, 1700.

England seemed likely to remain neutral when Louis XIV did the one thing which could go through the English like an electric shock. On September 16, 1701, James II, exiled King of England, died at Saint-Germain, near Paris, and Louis acknowledged "the Old Pretender" as rightful King of England. Dread of a revolution or an invasion swept the country. The Tories were defeated at the polls, a European coalition was formed with England at the

head, and war was declared against France: the War of the Spanish Succession, with Marlborough's victories and another £36,000,000 on the National Debt.

William III died in 1702, and Anne, younger daughter of James II, succeeded him. The war continued, and the Bank continued to supply the Government with the sinews of war. In 1707 the rumour of a Jacobite invasion sent the price of stocks down and led to a run on the Bank, which was saved, however, by help from Marlborough and other influential persons. One small patriot took his whole savings of £500 to help the Bank. The Queen was deeply touched, and sent him £100 and a bill on the Treasury promising repayment of the £500.

By the Act of Union (1707) the Scottish Customs and Excise duties accrued to the English Government and in consideration of this a sum of almost £400,000 was granted to the Scots. The Bank was ordered to transmit this sum to Edinburgh—about a quarter in coin and the rest in Exchequer bills. The Scots thought the wagons contained ammunition, and greeted the convoy with a hail of stones. Shortly afterwards the Government employed the Bank to circulate £1,500,000 in Exchequer bills. By these two actions the Government began to employ the Bank as its fiscal agent, greatly to the benefit of the Bank's prestige.

The Tories had never ceased to oppose the Bank, and when the Charter was nearing the time for renewal Richard Hoare, one of the great goldsmith-bankers of the City, asked whether "if their time be prolonged, . . . they will not so strengthen themselves that it will be almost impossible to dissolve them."

Meanwhile, joint-stock trading companies were issuing notes and lending money on securities. The Sword Blades Company and the Mine Adventurers Company claimed the right to issue notes and bills "after the manner of Bank bills." The Sword Blades Company proposed to issue "Running Cash Notes" with a design showing Britannia with an anvil and crossed swords. The Government admitted that "goldsmiths or private traders may give out notes for money," but declared that "great numbers of private traders cannot by consent *unite into a bank*." In short,

the Government was not going to allow any other joint-stock banking in England. (None of these restrictions applied to Scotland, where joint-stock banking flourished.) The Act of 1697 had laid down that *during the continuance of the Bank of England* no other *banking corporation* would be established or permitted *by Act of Parliament*. But as there had been no legal definition of 'banking' the Bank had felt the danger of powerful corporations encroaching on its charter rights. Hence the Act of 1708 (6 Anne c. 22), by which a veto "during the continuance of the Governor and Company of the Bank of England" was put on the issue of notes or bills "payable at demand or at any less time than six months" by joint-stock companies in England having more than six partners (in short, the Bank became the only English joint-stock bank of real size). This appeared to be a great prize for the Bank, as it ruled out any competition from joint-stock companies. But, as Lord Liverpool pointed out in 1826, this Act had one great fault—it left open the possibility of note issue to any small tradesman, whether chemist, butcher, or cheese-monger, however ambitious or reckless.

The next year (1709) saw the Government in need once more, and again the Bank was appealed to. A new agreement was reached by an Act of that year (7 Anne c. 30) by which

- (1) the Bank agreed to lend the Government a further £400,000 without interest; this had the effect of reducing the rate of interest on the original debt of £1,200,000 from 8 per cent. to 6 per cent.;
- (2) the Bank agreed to circulate Exchequer bills and pay £1,775,027 for them at once (*i.e.*, cause Exchequer bills to be cancelled for that amount) at a discount of 6 per cent.

In consideration for this,

- (3) the Bank's privileges were extended for another twenty-one years (*i.e.*, until 1733);
- (4) the Bank was allowed to double its capital; and
- (5) the veto against joint-stock banking contained in the Act of 1708 was repeated and confirmed.

The terms having been agreed upon, the subscription list for new capital was opened on April 23, 1709 (the day the Act received the Royal Assent), and filled within three hours. By doubling its capital under this Act the Bank, of course, gained the right to double its note issue.

The Bank was bound even closer to the Throne when Queen Anne protected it from pillage during rioting in 1709. A Tory clergyman, Dr Sacheverell, had preached at St Paul's against the Whigs and Dissenters ("A sermon at St Paul's was like a modern demonstration in Hyde Park," said Morley in his book on Walpole), and a wave of anti-Whig rioting broke out. The Bank appealed for protection, and Queen Anne sent a detachment of the Guards to defend the premises—a bold act of royal favour and confidence when the wave of popular feeling was running strongly for the Tories.

During the Marlborough campaigns the value of land had steeply declined. In 1713, to assist the landowners, Parliament reduced the rate of interest on loans to 5 per cent. But after conditions had improved even the Bank of England on its own security could not find lenders at that rate, and a clause was inserted in an Act of 1716 permitting the Bank to borrow at higher rates. In short, it gave the Bank a priority exemption from the Usury Laws (see Glossary).

The Marlborough campaigns came to an end with the Treaty of Utrecht in 1713. The Bank Charter was renewed for another thirty years, and the Government extracted the usual loan from the bargain. In 1714 Queen Anne died and there were fears of a return of the Stuarts and civil war; but the Government acted swiftly and secured the Protestant Succession under George I (grandson of a sister of Charles I), who had kept on good terms with the English Whigs by sending a useful detachment of Hanoverians to assist Marlborough at Blenheim, but who cared little for English politics and left the cares of State in the capable hands of his Minister, Walpole. Meanwhile another financial storm was blowing up.

CHAPTER VI

1714-21: THE BANK AND THE SOUTH SEA BUBBLE

Between craft and credulity the voice of reason is stifled.

EDMUND BURKE, *Letter to the Sheriffs of Bristol*

After coming safely through the storms of war the Bank had soon to battle with the storms of peace—and the latter nearly drove it on the rocks.

The wars against Louis XIV caused the National Debt to rise from £664,000 in 1688 to £54,000,000 in 1714, and the underlying purpose of founding a Company to trade in the “South Seas” (an imaginary area of fabulous wealth, but roughly South America) was a Conversion Scheme to reduce this new burden of public debt. The South Sea Company’s Charter was granted by Queen Anne on September 8, 1711; Harley was the first Governor, and the Company took over £9,500,000 of public debt. In effect, the holders of National Debt exchanged the rather shaky security of the overburdened State for the prospects of great profits from trading in the South Seas. It was expected that under the Treaty of Utrecht the King of Spain would, out of gratitude, open the ports of his American colonies to English trade. But his conditions were so restrictive that profits were small, and £100 of South Sea Stock fell to 77½.

It was then, in 1718, that one of the Directors, John Blount, came to the rescue. Blount began life as a scrivener writing letters for sixpence each, but he learnt the art of company-promoting from the notorious John Law, who had floated the French Mississippi Company—the French equivalent of the South Sea Company. He proposed that after payment of £3,500,000 by the Company the State should transfer 31 millions of public debt to the Company and pay 5 per cent. on this until 1727, and thereafter 4 per cent. The South Sea Company was a

great Tory corporation, jealous of the Whig Bank of England, and the scheme it proposed would have included paying off the Government debt to the Bank and putting the Bank out of business. The plan was put before the House of Commons in January 1720 by Aislaby, then Chancellor of the Exchequer, but the House insisted upon giving the Bank five days within which to make an alternative offer. The Bank, not wishing to be wound up, offered £5,000,000 as against the Company's £3,500,000, and on slightly more favourable terms as regards interest rates. The South Sea Company made a revised offer and the Bank raised its tender to £5,700,000. The Company then offered £7,567,000, but the Bank wisely declined to bid more—thereby saving itself from certain destruction. However, to assist the Government it cancelled another £2,000,000 of Exchequer bills by lending money to that amount.

Parliament (which had taken £1,250,000 in bribes) passed the necessary Act in April 1720, and the Company embarked on its great publicity campaign about the wealth of the "South Seas" and the fortunes to be made there by this great monopoly Company. The Company's stock rose from 128 to 380, the boom began, and on four occasions millions of capital stock were offered. The public, rich and poor, indulged in an unparalleled frenzy of speculation. Among the investors who sold out at a handsome profit was Thomas Guy, one of the Bank's original subscribers, who bequeathed the bulk of his estate to found Guy's Hospital, London.

On June 24, 1720, the South Sea Company's stock reached the peak price of 1050. So great was the frenzy to invest in commercial ventures that innumerable smaller companies were floated, some for the most ridiculous purposes: for erecting salt-pans in Holy Island (capital, £2,000,000!); for making a wheel for perpetual motion (capital, £1,000,000); for a "machine-gun" to discharge round and square ammunition, the round against Christians, the square against Turks!; and, best of all, "for carrying on an undertaking of Great Advantage, which shall in due time be revealed." Even that last attracted a thousand subscriptions in five hours. But also two assurance companies—the



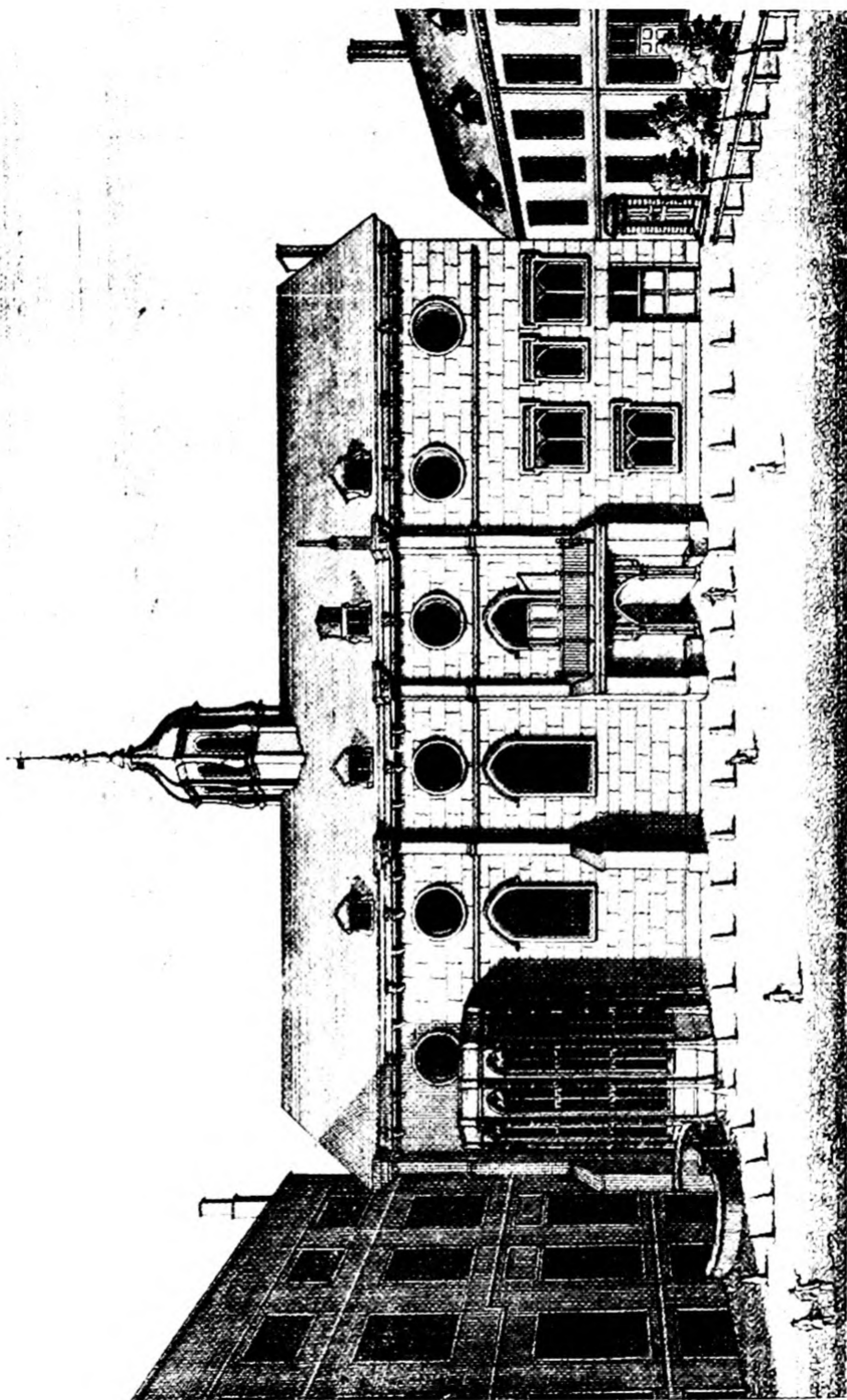
Charles Montague Lord Halifax.

From an Original by S^r Godfrey Kneller.

*Officio Auditoris Henrich Stij
Halifax*

As a Commissioner of the Treasury in 1693, Montagu was a principal promoter of the Bank of England. He was created Earl of Halifax in 1714, a year before his death.

From an engraving by John Savaine after Sir Godfrey Kneller



“THE BANK OF ENGLAND IN YE POULTRY”

Grocers' Hall, occupied by the Bank from 1695 to 1734.

From a contemporary engraving

Royal Exchange and the London—were founded and survived the “Bubble,” to be among the most powerful assurance companies of to-day.

The prestige of the South Sea Company rose so high that King George I became its Governor, John Blount became Sir John Blount, Bart., and the initials ‘S S C’ appeared on many of the coins of that reign. The bursting of the South Sea Bubble was caused by the previous bursting of the innumerable little bubble companies, which the courts limited or suppressed, and “besides ye Bubbles here named, an innumerable Number perished in ye Embrio.” Most of the shareholders of these had subscribed with money borrowed from the goldsmiths by pledging their South Sea Company stock, which stock had then to be sold, and the price fell from over 1000 to 240. Panic set in, and the South Sea Bubble began to burst. Bankruptcies and suicides abounded; vast numbers of people were ruined—the Court painter, Sir Godfrey Kneller, another “first subscriber” to the Bank, lost most of his fortune.

The Sword Blade Company in the North of England had become the Sword Blade Bank in 1712 and acted as the chief cashiers of the South Sea Company. It went bankrupt, and a run on the Bank of England took place. The queue of people waiting to withdraw their money or cash their notes stretched from Grocers’ Hall down Ludgate Hill to Fleet Street. The Bank was on the verge of ruin and, it is said, only escaped by making payment in sixpences and shillings to friends who brought them back again at the back door and so kept the tills full. The South Sea Company made desperate efforts to recover, suggesting amalgamation with the East India Company or the Bank of England. Sir Robert Walpole actually drew up a tentative contract whereby the Bank should take up £3,000,000 of South Sea bonds, but the Bank declined to confirm the agreement, and South Sea stock fell to 140. In January 1721 Parliament passed an Act permitting £9,000,000 of South Sea stock to be grafted on to the Bank’s capital and a similar amount on to that of the East India Company, but neither institution availed itself of the opportunity. However, in June 1722 the Bank agreed to

purchase South Sea Company £5 annuities at £105 per cent. to the extent of £4,000,000, and the amount actually subscribed—£3,328,300—was added to the capital sum of the Bank, making it £8,959,995. This sum is still recorded in the annual “Finance Accounts of the United Kingdom” as one of the Government’s debts to the Bank. After the crash of the South Sea Company the House of Lords found the whole Board guilty, and its members were forbidden from becoming directors of either the Bank or the East India Company.

A century later a clerk who had been for a short time in the service of the South Sea Company wrote:

This was once a house of trade—a centre of busy interests. The throng of merchants was here—the quick pulse of gain—and here some forms of business are still kept up, though the soul be long since fled.¹

¹ Charles Lamb, “The South-Sea House,” in *Essays of Elia* (1823).



1699

FROM AN OLD PROMISSORY NOTE

CHAPTER VII

1721-85: THE BANK DURING THE EXPANSION OF ENGLAND

“ By adverting to the dignity of this high calling, our ancestors have turned a savage wilderness into a glorious empire : and have made the most extensive, and the only honourable conquests, not by destroying, but by promoting the wealth, the number, the happiness of the human race.”

EDMUND BURKE, speech on conciliation with
America (1775)

The next seventy years of the Bank's history lie in that period when England was expanding in wealth and influence over the whole world. The losses of the South Sea Bubble were made good from trading with the new colonial dominions, machinery was raising production, and the industrial revolution was under way. The common lands were enclosed, agriculture prospered, turnpike roads made transport faster, canals were built, coal and iron were found in large quantities, cotton-mills began to foretell the future of Lancashire, India and China sent tea and the Potteries made the crockery from which to drink it, the sound of the steam-engine was heard in the land. It was the age of Watt and Arkwright, Hargreaves, Crompton, and Brindley. Bonnie Prince Charlie strove to retrieve the fallen fortunes of the Stuarts. Canada, India, Gibraltar, were wrested from the French, the Seven Years War enabled England once more to lead (and finance) a triumphant coalition against France and her allies (“Canada was won on the banks of the Elbe,” said Chatham). The one blot was the obstinacy of George III, which lost for England the fairest of all her colonies—the Thirteen States of America.

For twenty years after the bursting of the South Sea Bubble Sir Robert Walpole governed England for George I and George II. The Whigs were the dominant party, the Tories were weak; friendship with France was cultivated, the financial losses were made good, and although the Bank had to advance three sums

totalling £4,600,000 between 1728 and 1742, the Government repaid three-fourths of these loans in the same period.

In that interlude of peace the Directors took up the plan to strengthen the reserve for payment of dividends. From 1694 to 1722 the Bank's profits had fluctuated and the dividends had fluctuated too, between 18 per cent. and 6 per cent., calls on the shareholders being made to meet exceptional demands. Consequently, in 1722 the Directors decided to build up a Reserve Fund of undistributed profits to meet such exceptional demands. This was known as the "Rest," and by this name it still appears in the Bank's balance-sheet. On March 8, 1944, it was shown as £3,480,596, but it is assumed that the Bank has unpublished reserves also.

On June 5, 1734, the Bank moved from Grocers' Hall to its present site in Threadneedle Street—a world-famous address, though an elderly lady wrote to the Bank in 1937: "I am sorry I have not replied to your letter before, but I had mislaid your address."

The Bank's Charter, renewed in 1713 for thirty years, was due to expire in 1743, and negotiations for its extension were begun in 1742. The Government required the usual loan, this time £1,600,000 without interest. The Bank opened a subscription list, collected £840,004, and added this sum to its capital, bringing this latter up to £9,800,000 (still remaining due as part of the Government debt to the Bank). The Bank's monopoly of joint-stock banking (by more than six partners) in England—granted by the Act of 1708—was extended to 1764 and thereafter should not be terminated without twelve months' notice (in which case the Government would have to pay off all its debt to the Bank). The rights of partnerships not exceeding six persons to issue bank notes payable on demand or within six months were of course left unaffected. One important fact passed unnoticed: the Act did not forbid the use of cheques, which were regarded then as a Dutch device and unimportant. Yet the great joint-stock banks of the next century were to owe their power to banking by cheque.

All seemed plain sailing now; but the next year (1744), when

Pelham (a former colleague of Walpole) was Prime Minister, the new policy of friendship with France in order to keep the Stuarts at bay was broken. France and England went to war, and the Stuarts made their last and boldest bid to regain the throne of England. This threat threw across the land the shadow of danger to the Protestant Succession, the Whigs, and the Bank of England. The shadow grew darker when Bonnie Prince Charlie landed in Scotland in July 1745, raised an army, and defeated the English at Prestonpans. His army crossed the Border; he was in Carlisle in November; in December he was in Derby and only 127 miles from London. A French invasion was feared and panic set in. Business came to a standstill: December 6, 1745, was "Black Friday" in London. Bonnie Prince Charlie promised not to cancel the National Debt (though holding it to be the debt of an illegal Government) without the consent of Parliament, but the Protestant Succession, the Whigs, the National Debt, and the Bank of England were so intimately connected that the fall of one would have involved the others.

The English Jacobites did not rise to support the returning Stuart. Nor did the Tories, although one of them, then thirty-six years old, preferred a Jacobite to a Whig any day:

"A Jacobite, sir, believes in the divine right of Kings. He that believes in the divine right of Kings believes in a Divinity. A Jacobite believes in the divine right of bishops. He that believes in the divine right of bishops believes in the divine authority of the Christian religion. Therefore, sir, a Jacobite is neither an Atheist nor a Deist. That cannot be said of a Whig: for Whiggism is a negation of all principle."¹

Although the Tories hated the Whigs, they did not carry this to the point of putting a French protégé on the throne. The Stuart invasion caused a run on the Bank which was met by the old device of paying out slowly to employees of the Bank, who handed the cash to people who paid it slowly in again. Thus the tills were kept full. But the critical situation was really saved by a meeting of influential City merchants at Garraway's Coffee House in Change Alley, Lombard Street (behind where now is

¹ Dr Johnson, in Boswell's *Life*.

the London head office of Martin's Bank) at which it was resolved to accept Bank notes in payment and to use them for payment. Eleven hundred and forty supporters subscribed to this declaration, and the 'run' stopped. Bonnie Prince Charlie took his ragged army back to Scotland, where it was cut to pieces at Culloden. The crisis of '45 was over.

The wars with Scotland and France had again put the Government in need of money, and, an attempted State Loan having failed, the Bank had to assist. In 1746 the Directors were authorized to cancel £986,000 Exchequer bills in return for an annuity of 4 per cent. on that sum and to issue new stock for this purpose—thus increasing the Bank's paid-up capital to £10,780,000 (the £986,000 still stands as part of the Government debt to the Bank).

By the year 1750—fifty-six years after the Bank was founded—the Government's debt to the Bank amounted to nearly £12,000,000. The National Debt stood at £72,000,000—a large sum for a population of six and a half millions, of whom more than half dwelt on the land—and Pelham decided on the bold stroke of reducing the annual burden of interest (then mostly 4 per cent.). An Act of 1752 reduced the interest rate to $3\frac{1}{2}$ per cent. and, seven years later, to 3 per cent.; "Consolidated Three Per Cent. Stock" ("Consols" or "the Three Per Cents.") was issued, and 3 per cent. remained the rate on Consols for the next 138 years.¹ By the same Act the management of all this stock (the whole National Debt apart from the South Sea Company Stock) was entrusted to the Bank of England.

A curious incident in the Bank's work during the eighteenth century must be mentioned; the case of the Manila Ransom. In 1761, towards the end of the Seven Years War, after the French had been driven out of Pondicherry, the British fleet and land forces there were ordered to capture Manila and hold the Philippines to ransom. These forces were under the command of General Draper and Admiral Cornish, the latter in H.M.S. *Norfolk* (Captain Kempenfelt, later of the ill-fated *Royal George*).

¹ Not compulsory conversion, of course; every stockholder had the option of having his money back at par.

The Spanish Governor of the Philippines was the Archbishop of Manila.

After a bombardment Manila was taken by storm on February 3, 1762. To save the city from being sacked, the Governor agreed to pay a ransom of four million Spanish dollars, and half of this was paid forthwith. The remainder was to be paid out of the valuable cargo of a Spanish vessel, the *Philippino*, shortly expected to discharge at Manila. While this financial haggling was taking place "out East" the Seven Years War had come to an end and the Peace of Paris had been signed on February 10, 1762, but the news of this could not reach the Philippines for another nine months at least.

The English conquerors of Manila required the equivalent of cash in case the *Philippino* should not arrive, and consequently on February 18 the Archbishop agreed to give a bill for the remaining two million Spanish dollars, made out in favour of Admiral Cornish and drawn on "the first Treasurer of his Catholic Majesty in Madrid." On receiving it Admiral Cornish endorsed the bill payable to the Bank of England and requested the Bank to negotiate it and credit the proceeds as directed in his covering letter (beginning, "Gentlemen, As the Money Concerns of Individuals are always considered most secure when under your Directions and Management"). The English forces then sailed away to fight elsewhere.

After they had left the *Philippino* arrived and discharged her valuable cargo, which was thereupon dispersed. The English had the Archbishop's bill, which they doubtless thought "as good as gold." The bill was duly presented by the British Ambassador to the Spanish Minister of State at Madrid, who received it "without any apparent Marks of Ill-humour or Dislike." The King of Spain, however, was more temperamental and denied that he "would pay any sort of regard to the Archbishop of Manila's draught on the Treasury." He confirmed "what the Archbishop had done with regard to the Capitulation, but that the Archbishop might as well have drawn upon the King of Spain to deliver up the Kingdom of Grenada." In short, the King of Spain maintained that the Archbishop had no power to draw the bill, that

the ransom was obtained under pressure and was not binding on him, and that the English had sacked the city and therefore broken their part of the bargain. So the Bank had no luck in collecting the money.

General Draper protested that the Spanish reasons for non-payment were absurd: "these ungrateful people," he wrote, "who have almost taught me to believe that Humanity and Compassion are crimes." As for sacking the city, he retorts: "It is a known and universal Rule of War amongst the most civilized Nations, that places taken by Storm, without any Capitulation, are subject to all the miseries that the Conqueror may choose to inflict." Had the English chosen to sack the city "the whole might have been entirely ruined, the Spanish Empire in Asia subverted, and the fruits of their religious mission lost for ever." However, Spain refused to pay, and General Draper lamented the loss of the money. In a letter to Lord Halifax he pleaded the cause of his disappointed comrades: "Many of them, my lord, from the too usual and sanguine Hopes of their Profession, have already anticipated their supposed profits; and may live to repent their fatal Success in Jail."

Under the Act of 1742 the Bank's Charter had been extended until 1764, in which year a further renewal was sought. The country had just come to the end of the Seven Years War, which had added nearly £60,000,000 to the public debt, and the Government required the Bank to lay a further money offering on the altar of patriotism; this time it was a gift of £100,000 and a loan of a million pounds on Exchequer bills for two years at 3 per cent.

The Act of 1764 also declared that the forging of powers of attorney, etc., relating to Government stocks was a felony punishable by death without benefit of clergy. Since the restoration of the coinage in 1696 the metallic currency had once more got into a deplorable condition. There was a shortage of silver throughout George III's reign. Clipping of guineas had brought these gold coins down to 9 per cent. below standard weight, and gold bullion had risen from £3 18s. 6d. per ounce in 1730 to £4 1s. per ounce in 1772. The Government fixed the new value of gold

bullion at £3 17s. 6d. per ounce (at which price it remained until September 1797) and in 1774 ordered a recoinage.

The shortage of silver increased the number of small notes in Scotland, and all sorts of small traders began issuing their own (notes for 6d. among them) and failing to pay them, so that in 1765 all notes under £1 were declared illegal in Scotland and, in 1775, in England also. Both these Acts aimed at putting a check on the flood of small notes from the country banks.

The London Clearing House was established—probably in 1773¹—at the Five Bells in Dove Court, Lombard Street, but the Bank of England did not join the London Clearing House until it was invited to do so in 1864.

The year 1780 was the year of the Gordon Riots—a year of tumult for the Bank; the mob attempted to take it by storm and plunder it. After attacking Newgate Prison the mob marched to the Bank (June 6, 1780), but by delaying their assault until the following day they gave time to organize resistance. The Lord Mayor procured some troops from the Government, some citizens volunteered their services, and the Bank armed its porters and clerks. The assault began at midnight, the rioters being led by a “brewer’s drayman bestriding a horse caparisoned with chains filched from Newgate.” Two attacks were made, one from Bartholomew Lane, the other from Cheapside, but both collapsed after volleys from the defenders, and the mob withdrew. Next day the rioters were heavily defeated by Government troops, and Lord George Gordon was arrested.

Three years later a Special Committee reported that there were “31 musquets with bayonets and other accoutrements in the Porter’s Lodge” and that “the Gate Porter has always some powder and ball in his apartments and the arms were taken down and loaded at the time of the Riots in 1780.” The Home Guard of 1780!

In 1781 the Bank’s Charter was once more renewed, until 1812. The ‘consideration’ this time was a loan of £2,000,000 at 3 per cent., which must, however, have been a trifle—though a welcome

¹ W. Marston Acres, *The Bank of England from Within* (Oxford University Press, 1931), p. 533.

trifle—to a Government which had just finished spending £97,500,000 in losing the American Colonies and brought the National Debt to £250,000,000.

A cynic has said that a pronouncement on economics by a bishop is about as valuable as a statement on the Apostolic Succession by a Bank chairman. But in the year 1735 an Irish bishop was asking shrewd and prophetic questions on economics, among them whether national production is not the true basis and guarantee of a currency. Here are some of his queries:

Whether Money be not only so far useful, as it stirreth up Industry, enabling Men mutually to participate the Fruits of each others Labour?

Whether the Denominations being retained, although the Bullion were gone, Things might not nevertheless be rated, bought and sold, Industry promoted, and a Circulation of Commerce maintained?

Whether the real Foundation for Wealth must not be laid in the Numbers, the Frugality and the Industry of the People? And whether all attempts to enrich a Nation by other Means, as raising the Coin, Stock-jobbing, and such arts are not vain? ¹

That was over two hundred years ago; to-day we are coming to realize that an increasing national income in terms of increasing productivity, not in terms of rising prices, is the condition necessary for avoiding inflation and financing increased social welfare.²

¹ George Berkeley, Bishop of Cloyne, *The Querist*, 1735.

² Cf. *The Times* of March 22, 1943, in its leading article commenting on Mr Churchill's broadcast of the evening before. "The Prime Minister . . . seemed to take a view of 'money' as a static and limiting factor and to overlook the extent to which a dynamic social and economic policy can create the new wealth out of which it is financed."

CHAPTER VIII

1785-1821: THE BANK DURING THE WARS WITH FRANCE

“ . . . to behold this nation, instead of despairing at its alarming condition, looking boldly its situation in the face . . . must give such an idea of our resources, and of our spirit of exertion, as will astonish the nations around us, and enable us to regain that pre-eminence to which we are on many accounts so justly entitled.”

WILLIAM PITT, speech on Bill creating National Debt Commission, March 29, 1786

The wars with France and the American Colonies which ended in 1783 were followed by eleven years of peace and prosperity in which agriculture, trade, and industry flourished, financed mostly by the country banks which were springing up everywhere.

In 1783 the younger Pitt became First Lord of the Treasury and Chancellor of the Exchequer at the age of twenty-five, and held the reins of government (with a brief break) for the next seventeen years. Having balanced his Budget, he started his scheme to liquidate the huge National Debt. In 1786 he set up the Sinking Fund into which a million pounds from annual revenue was to be paid for the redemption of debt. “I am proud,” he said, “to flatter myself that my name may be inscribed on that firm column now about to be raised to national faith and national prosperity.” In 1789 the French Revolution broke out. Pitt was not unsympathetic towards the desire of the French masses to shake off undoubted tyranny. Even when Revolution turned to Terror he still preferred to regard the whole thing as an affair of French internal politics and to avoid war. In fact, as late as February 1792 he introduced some small measures of disarmament in his Budget speech of that year, saying, “Unquestionably there never was a time in the history of this country, when from the situation of Europe we might more reasonably expect fifteen years of peace, than at the present moment.”

The armies of the Revolution swept into the Netherlands (the famous Bank of Amsterdam collapsed and ceased to function), and with the threat of danger from Flanders, England's traditional anxiety was aroused. When Louis XVI was beheaded horror was added to anxiety. Diplomatic relations with France were broken off on January 24, 1793, and on February 1 of that year France declared war against England and Holland. The resumption of the war with France brought about a financial crisis, and there was a run on the Bank. This the Directors sought to stop by raising the discount rate. It was in that same year (on April 18, 1793) that the Bank began the issue of £5 notes; prior to that £10 had been the lowest.

It seems clear that Pitt expected the war to be a short one; he thought that Republican France could not stand the expense of a long war. She was, he said "on the verge, nay, in the gulf of bankruptcy." But he misjudged the duration of the war and the strength of the enemy. Having allies on the Continent, Pitt had to provide them with subsidies as well as pay the cost of the naval war and of British troops overseas (India, Canada, etc.). He could do this by heavy taxation or by short-term loans, and at first he chose the latter method. Some of this money was well spent (at least, it kept the great French armies engaged far from the Channel coast), but much of it was lost. Had Pitt chosen the hard road of high taxation he would have dealt a crushing blow at the new industries which were springing up all over England.

Bad harvests and the high price of corn, and restriction on trading caused by the naval war, made high taxation impossible. The deficit was, however, aggravated by borrowing at a discount, so that less was actually lent than borrowed, and the effect of the Sinking Fund was that depreciated stock was redeemed at par by money borrowed above par. Take the loss on loans, for example:

1793-1801: Loans contracted		£314,495,000
less Sinking Fund		42,515,000
		£271,980,000
Actually received		202,372,000
Loss on Loans (21 per cent.)	.	£69,608,000

Besides this it must be remembered that most of the subsidies to the Allies, even when by way of loans, were a dead loss. The only thing that enabled England to stand the enormous financial strain of the war was the great increase of its industries. Between 1760 and 1821 the population of England doubled itself and industrial towns were springing up all over the Midlands and the North, especially in Lancashire. The value of cotton goods exported in 1750 was £45,000, in 1833 £18,486,408. The financing of this enormous expansion of industry was done by the country banks (with power of note issue if having not more than six partners). Had the Bank of England in 1742 established branches in the provinces it might have kept the issue of notes and the control of the financing of industry almost wholly in its own hands, to the great benefit of the country. But by neglecting this opportunity it left such business in the hands of the country banks, whose numbers swelled from twelve in 1750 to 400 in 1793. Many, if not most, of them kept far too little coin in reserve and collapsed at the first serious crisis, but the survivors were the source of strength which financed the tremendous industrial development of the following century. France took this opportunity to add confusion: its agents organized a run on the Bank for a whole week during 1793 and flooded the country with forged notes.

But to return to the story of Pitt and the loans. The Bank Charter of 1694 forbade the Bank from making any loans to the Government without the sanction of Parliament.¹ A custom had grown up, however, whereby the Bank advanced sums of £20,000 to £30,000 on Treasury bills of exchange payable at the Bank. Realizing that this was illegal, the Bank asked Pitt for an Act indemnifying them in respect of past advances and authorizing them to continue making advances (within a strict limit: £50,000 to £100,000). Pitt at once agreed, realizing that by such an Act he could get funds from the Bank by drawing on it without the previous consent of Parliament. The Act was passed, without the mention of any limits: the Bank could be drawn on at will, and Pitt made full use of his new powers.

¹ The wording was obscure. A special Act in 1819 was needed to make it clear.

In 1793 Pitt sent £2,715,232 in specie to his Continental allies. In 1794 he sent abroad more than £8,000,000, in 1795 more than £11,000,000, in addition to £4,702,818 for expenses of the Fleet abroad. These payments turned the foreign exchange against England. The Government also issued very large amounts of Treasury bills payable at the Bank. The collective weight of these withdrawals threatened to drain the Bank to the dregs, and the Directors became alarmed. They sent to Pitt in 1795 to say that they could not advance any more in that financial year. Pitt promised to make no further demands, forgot his promise, repeated it in answer to further protests, and then broke it again. As his opponent Fox said of him, "Year after year the Minister has been amusing us with his ideas of the finances of France—now on the verge, now in the gulf of bankruptcy. . . . But . . . while he was thus amusing us, he has led us to the very same verge, aye, into the very same gulf."

At last the Bank saw ruin facing it, and refused to make any more advances which would "most probably bring the Directors under the necessity of shutting up their doors." A crisis was imminent. On February 25, 1797, a French frigate landed 1200 troops on the Welsh coast ("the famous landing of Tate and his handful of ragamuffins in Wales," as Cobbett described it), and a run on the Bank began. The reserve had fallen from £10,000,000 to a fraction over £1,000,000.

On February 26 a Privy Council meeting, at which George III himself was present, had been held, when it was ordered that the Bank should stop payment. On Monday, February 27, a public notice of this decision was posted up in the Hall of the Bank along with another stating that "the general concerns of the Bank are in the most affluent and flourishing condition." A large meeting of over four thousand financiers and business men in the City agreed to accept Bank notes in lieu of gold. On March 3 a Parliamentary Committee reported on the position of the Bank, and its report showed that on February 25 the outstanding demands amounted to over £13,000,000 and the assets to meet them amounted to over £17,000,000. On March 10 an Act was passed suspending the Acts of 1775 and 1777 (which had forbidden the

issue of small notes), and £1 and £2 notes were printed. They were not 'legal tender,' but as there was no gold and a shortage of silver and copper they were accepted everywhere. Thus, the 'pound sterling' passed from a gold basis to a paper basis.

The famous Bank Restriction Act of 1797 became law on May 3 of that year. By that Act

- (1) the Bank was *forbidden* to pay in cash for sums of twenty shillings or over to any creditor or use cash for any payment except to the Army or Navy or Ordnance on a Privy Council Order, and
- (2) *forbidden* to make any advances above £600,000 in cash or notes for the Public Service;
- (3) taxes were to be payable in notes at par value;
- (4) payment in the Bank's notes might be "legal tender by consent"—i.e., payment in notes was to be deemed payment in cash "if offered and accepted as such."

The Act was intended to be a purely temporary war measure and to lapse on June 24, 1797.

The amount of English imports at that time, being far above exports, had to be paid for in bullion or coin, so that throughout George III's reign there had been a silver shortage amounting at times to a famine. The supply of silver specie was augmented in 1797 by two million Spanish dollars, lying in the Bank's vaults, which had been taken from captured Spanish ships. These bore the head of King Charles IV of Spain. A tiny bust of George III (as used by the Goldsmiths' Company for hall-marking plate) was stamped on the neck of Charles IV and the coins given a currency value of 4s. 9d. each. But these were soon to prove insufficient, and in 1804 the Bank, by arrangement with H.M. Government, issued a large quantity of its own "Bank of England Dollars" in silver, with the head of George III on one side and Britannia seated on the other. In October 1799 the Bank sold £350,000 in bullion for export to Hamburg to adjust the foreign exchange. A large part of this was shipped by the frigate *La Lutine*, which sank in a storm off the Dutch island of Texel. Only the ship's bell remains—the "Lutine" bell in the Underwriters' Room at

Lloyd's, still struck to announce ships overdue and deemed lost. During the war with France our shipping losses were severe, running into millions of pounds' value. In the years 1793 to 1797 French privateers sank or captured 2266 merchant ships, an almost crippling loss.¹

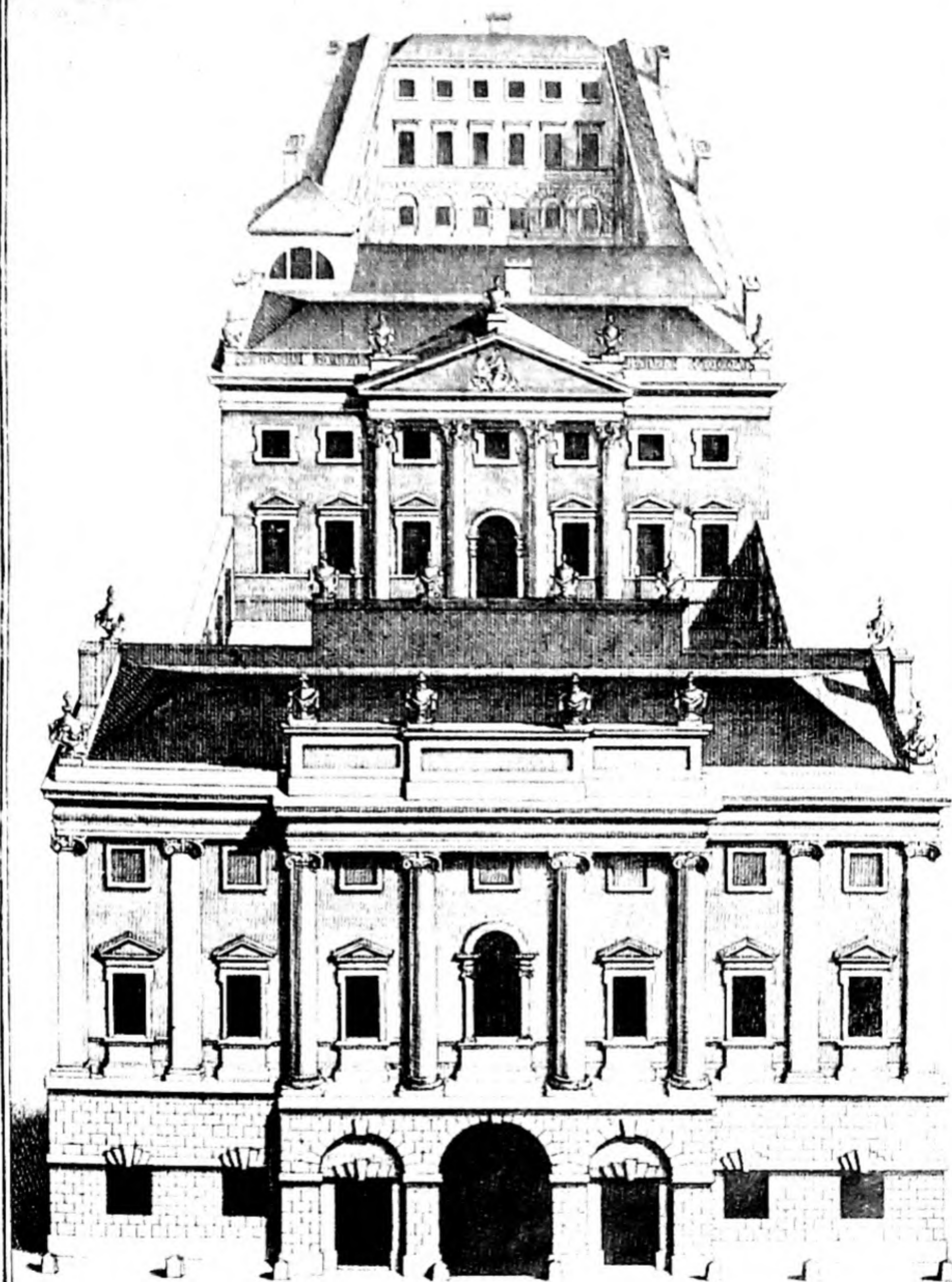
In 1781 the Charter had been renewed until 1812, but in 1800 the Bank applied for a twenty-one years' extension after 1812. The opposition made another proposal to establish a "National Bank" in place of the Bank of England, but this was defeated through the influence of Pitt. The 'price' for the renewal of the Charter was a loan of £3,000,000 for three years without interest.

Realizing at last that the war with France looked like being a long one, Pitt turned from a policy of loans to a policy of high taxation. Commerce and industry provided England with financial power. The Restriction Act was working smoothly, the note issue was kept in strict check and from 1802 to 1808 varied only between £12,000,000 and £18,000,000 a year.

At last, five years after the passing of the Restriction Act, the war with the French Republic came to an end. Austria had to make peace in 1800, after the King of Naples could fight no more, and England was left with only one ally—Russia. By the Peace of Amiens in March 1802 England recognized the French Republic.

The Restriction Act (after several renewals) was due to expire in September 1802, and the Bank was ready to resume cash payments. The Act was prolonged until March 1, 1803, although guineas were being bought up and sent abroad as a result of the excess of paper money (*i.e.*, Bank notes were falling in value compared with gold). As a matter of fact, the Restriction Act remained in force until 1819. In 1808 an Act was passed fixing the Bank's remuneration for managing the National Debt at £340 per million up to 600 millions and £300 per million after that.

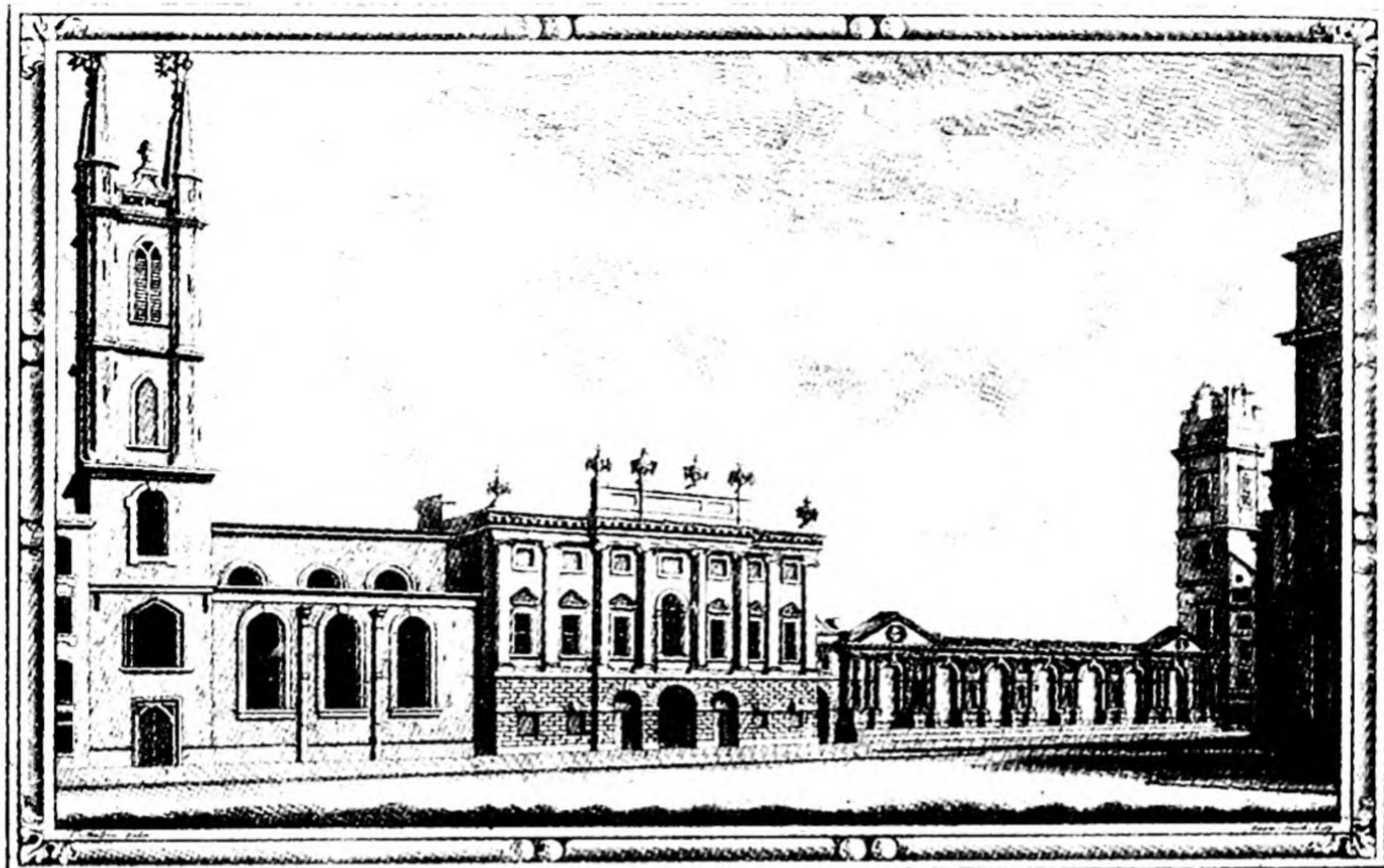
¹ In January 1917 the *Laurentic*, carrying £5,000,000 in gold from the Bank of England to support the New York exchange, was torpedoed and sunk off the coast of Donegal. In the spring of 1940 the Bank shipped £2,500,000 in gold to the U.S.A. The ship (H.M.S. *Niagara*) hit a mine twenty-eight miles off the New Zealand coast and sank. Early in 1941 the wreck was located 438 feet below the surface, yet at that great depth, and despite the bad weather, divers recovered 94 per cent. of the gold. (See *Gold from the Sea*, by James Taylor (Harrap, 1943).)



THE BANK'S FIRST BUILDING IN THREADNEEDLE STREET

The architect was George Sampson (1731).

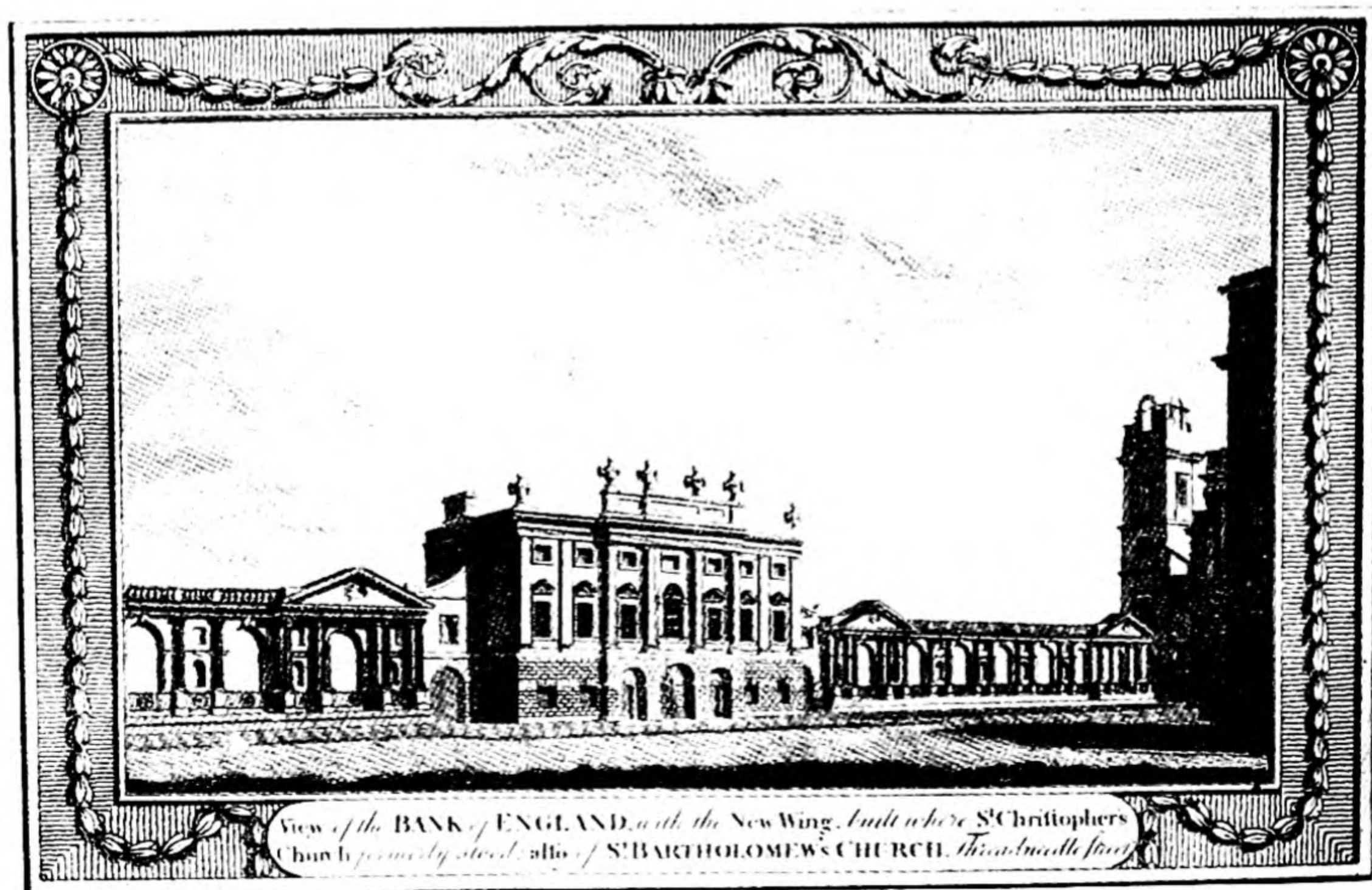
From Maitland's "*History of London*" (1739)



THE THREADNEEDLE STREET FRONT IN 1766

After the addition of Taylor's East Wing.

From Chamberlain's "History and Survey of London" (1769)



View of the BANK of ENGLAND, with the New Wing, built where S^t Christophers Church formerly stood, allof S^t BARTHOLOMEWS CHURCH. Threadneedle street

THE THREADNEEDLE STREET FRONT IN 1790

After the demolition of the church and the addition of Taylor's West Wing.

From an engraving by John Peltro

War with France began again. England blockaded the Continent, Napoleon blockaded England. Neither blockade could be made effective, and smuggling flourished. Nelson won for England the freedom of the seas, but this did not prevent Austerlitz ("Roll up the map of Europe"). Pitt died in 1806, French armies invaded Spain and Portugal, and England sprang to their defence. The American colonies of those countries were then opened to English trade. A wave of speculation set in, new companies of every kind sprang up, and the Bank of England did nothing to restrain the expansion of credit. The Bank's discounts were less than £3,000,000 in 1795, over £15,000,000 in 1809, over £20,000,000 in 1810. In 1810 the Bank's note issue amounted to £30,000,000, and the country banks, which had multiplied from 470 in 1797 to 721 in 1810, are estimated to have issued notes for £30,000,000 also, much of it to finance the boom in trade with South America and the West Indies, but also far more than they could safely put into circulation. In the Bramber Museum, near Steyning, Sussex, is a note issued by the "Steyning New Bank 1798" payable at No. 1 High Street, Steyning, for *Two Pence*.

The price of gold rose, the foreign exchange fell, and despite penalties for smuggling gold abroad a guinea could be sold for twenty-nine shillings on the Continent ("Jacobin Guineas," Cobbett called them) and the value of an ounce of fine gold had risen from £3 17s. 6d. to £4 10s. In short, notes were multiplying, coin was vanishing. The perilous state of the Bank before Trafalgar year may be gathered from the fact that it was known that Napoleon's invasion plans included the looting of the Bank, and when war with France was resumed in 1803-4 the Directors decided to remove the Bank's books and bullion to a large house near Monmouth. The bullion was boxed, and sixty-six covered eight-horse wagons—each capable of carrying two and a half tons—were kept ready at the disposal of the Bank. Some books and papers were actually sent, but after Trafalgar (October 1805) there was no more danger of invasion.

David Ricardo, a Member of Parliament and leading business economist of the day, contributed a series of articles to the Whig

Morning Chronicle on "the high price of bullion as proof of the depreciation of Bank notes" in which he wrote:

The remedy which I propose for all evils in our currency is that the Bank should gradually decrease the amount of their notes in circulation until they shall have rendered the remainder of equal value with the coin which they represent or in other words till the prices of gold and silver bullion shall be brought down to their Mint price.

Frederick Horner, then a young man of thirty-three, raised the matter of the paper currency in the House of Commons, and as a result the famous "Bullion Committee" was appointed to answer the following questions:

- (1) Had Bank notes depreciated or the price of gold risen?
- (2) Had the increased note issue affected the exchange rates (Paris minus 14 per cent., Hamburg minus 9 per cent.)?
- (3) How would a restriction of note issue affect gold and the exchange rate?
- (4) By what method should the note issue be controlled?

On June 9, 1810, Horner presented the Bullion Report and Minutes of Evidence ("a book much larger than the whole of the New Testament," wrote Cobbett, fuming against paper money from the confines of Newgate Gaol). The Bullion Report substantially adopted Ricardo's conclusions and found that there was too much paper money in circulation, traced this to the effect of the Bank Restriction Act, admitted that the sudden restriction of note issue might cause a financial crisis, but recommended as the only cure a return to cash payments within two years.

The House of Commons, however, decided to reject the Report, believing that the Restriction Act had provided the country with the huge sums needed to maintain the war against Napoleon, and among the resolutions was one which stated that Bank notes "have hitherto been, and are at this time, held in public estimation to be equivalent to the legal coin of the realm." The House preferred to put the cause of the trouble down to bad harvests, stoppage of trade with the United States, the great cost of the war, and the blockade of English goods from the Continent. Cobbett and his followers had denounced the Bank for going 'off gold.'

But, as Professor Foxwell has pointed out,¹ Governments in those days exploited their banks in the same way as they exploited their colonies and their trade, and the Bank was suffering for its patriotism and loyalty. On the one hand, the Directors were being urged by Ricardo to remain 'on gold' while Napoleon was doing his best to destroy British credit; on the other hand, to remain 'on gold' while gold was being drained away to pay for imported corn and to finance the Allies would have made things worse and have crippled that trade which the Directors, as merchants, knew was enabling England to shoulder the burden of the war.

The benefits of the Restriction Act have been summed up as follows:

. . . so long as the war continued, the system of inconvertible paper money did good service in England. . . . It was, in short, a gigantic system of paper credit, giving us power to cope with no less gigantic foes.²

In 1811 Bank silver tokens for 3s. and 1s. 6d. ('early head' of George III) were issued, and a similar issue (with the 'bull-head' of George III) followed in 1812.

Throughout all this time, while the Scottish joint-stock banks flourished, the small English country banks (some of them little better than local moneylenders in small towns) with their unwieldy note issues had been failing right and left, and many hundreds of them stopped payment. (The sort of local panic caused by a country bank in difficulties at that time is well described in Mrs Craik's novel, *John Halifax, Gentleman*.) However, while they were solvent their notes were recognized where the Bank's notes were scarcely known. Thomas Joplin, the founder of the "Nat. Pro.," wrote that in northern counties no one would take Bank of England notes if he could help it.

After the defeat of Napoleon trade began slowly to revive, and good harvests aided a return to prosperity. In November 1816 the Bank announced that it had enough gold to resume cash payments and would pay out on all notes issued before 1812; but the public seemed to prefer notes, and few were presented for

¹ In his preface to Andréadès' *History of the Bank of England* (King, 1924).

² Stanhope, *Life of William Pitt* (1861).

coin. However, before a general resumption of cash payments could be started an unexpected drain on the Bank's gold set in. Continental countries which had raised loans in England wanted gold to replace their paper notes. Yet in spite of this drain the Bank lent another three millions to the Government in 1816.

In January 1819 gold rose to £4 3s. per ounce and the reserve fell to £4,000,000. Parliament became uneasy and ordered a report on the Bank's position. The result was an Act of 1819 by which the Bank's price of gold was ordered to be reduced in stages to £3 17s. 10½*d.* per ounce by May 1, 1821, and so to continue for two years, leaving the general cash payments to be resumed on May 1, 1823, on the grounds that the only sound currency is one which is freely convertible into gold. A further Act of the same year expressly forbade the Bank to make loans to the Government without the consent of Parliament.¹ Actually, cash payments were resumed by the Bank (in sovereigns, not in guineas) on May 1, 1821—two years before the appointed date, six years after the end of the war, and twenty-four years after the passing of the Restriction Act. England, in the words of Pitt, had regained that pre-eminence to which she was on many accounts so justly entitled.

¹ Making clear the veto obscurely worded in the Act of 1694.

CHAPTER IX

1821 TO THE BANK CHARTER ACT OF 1844

. . . I must have liberty
Withal, as large a charter as the wind,
To blow on whom I please. . . .

SHAKESPEARE, *As You Like It*

With a return of good harvests and the paper currency on a reasonable gold standard again, the Bank's bullion reserve rose to the high figure of £14,200,000. Prosperity returned in the years 1821-24, and by an Act of April 1822 all the banks were authorized to increase their note issues, and this although the custom of using cheques had begun to transform banking practice: cheques rather than notes and gold were beginning to be the method of transferring money. During this period (1826-43) the Bank opened thirteen branches in the provinces; five of them were short-lived, but the majority still exist to-day.

Aided by a £5,000,000 loan from the Bank, the Government converted the remaining 5 per cent. National Debt to 4 per cent., and the 4 per cent. to 3 per cent. This reduction of interest on Government stocks caused investors to look elsewhere for a higher return on their capital, and they found a market waiting for them in South America. The Spanish and Portuguese colonies, encouraged by the influence of Canning, had just won their independence and as sovereign States were offering high returns to foreign investors. During the years 1824 and 1825, 625 new companies were formed in England, £372,000,000 of British capital (one-third of the country's total assets) were poured into Mexico and South America, and speculative adventures of all kinds flourished (including a company floated to recover Pharaoh's treasure lost in the Red Sea during the pursuit of the Israelites in the days of Moses). The speculation mania was reminiscent of the "South Sea Bubble"; capital values of some shares doubled and trebled

themselves in a few months. And the Bank, instead of restricting its note issue, actually increased it.

In 1823 the Bank exercised the power given to it by the Charter of 1694 to lend money on mortgage of freehold land, the Directors agreeing to invest £2,000,000 on such security, but in 1825 they ceased this practice. Once more the drain on the Bank's bullion began to be serious: the Reserve stood at £13,500,000 in January 1824, £6,650,000 in April 1825, and sank as low as £1,260,890 in December 1825 (with Bank notes for £20,000,000 in circulation). In fact, the rush for specie was so great that the Bank was within a few hours of closing its doors—and, indeed, would have had to close them if some one had not remembered a box containing 600,000 pound-notes from the early days of the Restriction Act. "We were within a few hours of a state of barter," said Huskisson, then President of the Board of Trade. The real cause of this crisis was the country banking system, which was desperately in need of reform. Many of the country banks failed, but gradually the financial storm was weathered. Some people blamed the Bank for over-issue, but, as an expert economist remarked:

The errors of all the banks put together were trivial compared to the outbreaks of speculative insanity which seized upon all classes. . . . Was it the issue of bank-notes which led a respectable book-selling firm to risk £100,000 on a speculation in hops? ¹

But the crisis had been serious: sixty banks had stopped payment, and George Canning described the time as "one of the most tremendous and searching convulsions ever experienced in any country."

This state of affairs led Ricardo to bring forward once more his plan for a National Bank to replace the Bank of England, and in 1826 Parliament considered the whole situation anew. Lord Liverpool remarked that the Act of 1708, by limiting banking partners to six, had enabled anyone, with or without banking experience, to open a bank, and Sir Robert Peel pointed out the need for reliable joint-stock banks. The result was the Act of

¹ H. D. MacLeod, *Theory and Practice of Banking* (Longmans, 1857).

1826 (7 Geo. IV, c. 6), which limited the Bank's monopoly to within sixty-five miles of London and made possible the founding of joint-stock banks beyond that limit with power of note issue and having more than six partners. But it did not restrict the note-issue rights of the country banks provided they had no banking offices in London. The Bank was specifically authorized to set up branches in the provinces, and Bank notes under £5 were again abolished—except in Scotland.

The years 1831–33 were years of rising political tension in the country. The first Reform Bill was rejected in 1831, and the City Corporation warned the King that the Bill must be passed, otherwise there would be “most fearful national commotions.” The second Reform Bill was also defeated in Parliament, and the Duke of Wellington (no friend of the Bill) was appointed Prime Minister. On May 12, 1832, placards appeared: “To stop the Duke, go for gold” (meaning pillage the Bank). A million and a half pounds in coin were withdrawn in a few days. The Reform Bill was passed after the King had consented to create new peers to ensure a majority. It was in such a tense political atmosphere that the Bank's Charter was due for renewal in 1833.

As usual, a Committee was ordered to report on the position, and as a result an Act was passed in 1833. The Bank's Charter was renewed until 1855 (subject to the Government's right to terminate it in 1845), and one or two substantial reforms were introduced:

- (1) The Bank's notes were made legal tender for all sums above £5 (except at the Bank itself).¹
- (2) The Bank was exempted from the Usury Laws in respect of bills and notes having not more than three months to run (*i.e.*, it could raise its discount rate on short bills above 5 per cent.).
- (3) The Government paid off a quarter (£3,671,700) of its total *debt* to the Bank (£14,686,800), leaving the Bank's

¹ W. Marston Acres, *The Bank of England from Within* (Oxford University Press, 1931). But see the Act itself (s. 6): “shall be a legal Tender, to the Amount expressed in such Note or Notes, and shall be valid as a Tender to such Amount for all sums above Five Pounds.”

capital at £14,553,000 and the Government's debt to the Bank at £11,015,100, both of which amounts remain the same to-day.

- (4) The Bank had to publish a quarterly balance-sheet in the *London Gazette*.
- (5) Joint-stock banks using cheques (but not issuing notes) were officially recognized to be legal anywhere, including London (the Bank had disputed this). But they had to use notes of the Bank of England only.
- (6) The fees (fixed by the Act of 1808) for managing the National Debt were made subject to an annual rebate of £120,000 to the Government (*i.e.*, the fees were reduced by that amount).

In March 1834 the first joint-stock bank—the London and Westminster Bank—was opened in London. But within ten years there was another financial crisis, due to a variety of causes.

The building of railways had just begun to attract investors. Andrew Jackson decided to reform the United States currency, and Americans sold a large number of English securities to obtain the necessary bullion. The English harvest of 1838 was very bad, ten millions of gold had to be exported to pay for foreign corn, the Irish harvest was worse, the Bank of Belgium collapsed, and there was a run on the Bank of France. The Bank of England's gold fell from £10,527,000 in March 1838 to £2,406,000 in September 1839, and as a consequence the Bank had to seek help abroad. Two millions were borrowed in Paris and £900,000 in Hamburg—the former sum lent by French banks to Messrs Baring Brothers, acting on behalf of the Bank of England.

Between January and November 1836 the banks issuing their own notes had increased the paper money by 50 per cent., but a critical situation was mastered and once again a very large number of country banks, whose freedom of issue had aggravated the crisis, collapsed. Public opinion cast about for a remedy, and the experts were divided among those who advocated "the Banking Principle" and those who supported "the Currency Principle." Suffice it to say that Parliament reacted as it had done before,

and the Government of Sir Robert Peel adopted the Currency Principle. Notice was given to terminate the Bank's Charter in 1845.

Peel was determined to prevent an over-issue of notes, which he held to be the cause of the last crisis. The all-important Bank Charter Act of 1844 was the result. Its main provisions were:

- (1) The Bank was required to separate the note issue from the rest of its work and create a separate "Issue Department," dividing the Bank into a "Banking Department" and an "Issue Department."

The Banking Department transferred to the Issue Department £14,000,000 in securities (£11,000,000 was the Government Debt) and all the gold and silver not needed in the Banking Department, while the Issue Department gave to the Banking Department notes equal to these securities. The Bank was authorized to issue notes against securities up to £14,000,000, but no more except against gold.

- (2) No new (after 1844) banks to issue notes, those ceasing issue were not to resume issuing, and restrictions were placed on banks then issuing.

In 1844 there were still 207 private banks and 72 joint-stock banks issuing their own notes. The Bank Charter Act of 1844 limited the issue of these banks to a sum not exceeding the average figure for twelve weeks prior to April 27, 1844, and when any of such banks lost the right of note issue by winding-up or amalgamation the Bank's Issue Department inherited the right to issue two-thirds of the lapsed amount. Peel wished gradually to eliminate all but the Bank of England notes, yet it was not until October 1921 (when Fox, Fowler, and Company, of Wellington, Somerset, amalgamated with Lloyds) that the last English bank lost its issue rights. The total amount of issue rights which passed to the Bank under this Act was £5,754,431, two-thirds of £8,631,647.

- (3) No stamp duty on the Bank's notes, but the annual sum of £120,000 payable to the Government under the Act of 1833 was raised to £180,000.
- (4) The Bank was required to issue notes to anyone offering gold at £3 17s. 9d. per ounce.
- (5) Weekly accounts to be printed in the *London Gazette*.

Various restraints were put on the other English note-issuing banks, and it was declared that the notes of such banks were not legal tender.

Ricardo, who opposed the Act of 1844 (it declined to follow his "Banking Principle" as set out in the "Bullion Report"), again put forward his proposal for a State Bank for the whole United Kingdom to exercise the rights of the Bank's Issue Department and to issue Treasury notes against gold, but leaving notes for £25,000,000 uncovered—this amount being used to pay off £15,000,000 Government Debt to the Bank and £10,000,000 to buy gold to redeem Exchequer bills. But his proposal was rejected and the Bank Charter Act of 1844 became law.

The Act governed the note issue for eighty years and constituted a landmark in the progress of the Bank from being one commercial institution among others to its position as a central bank, operating as a public institution with a unique function which witnessed and contributed to the financial domination of London.¹

Yet there was one grave defect in the new Act: the "fixed issue" was to prove insufficient in a crisis and over-abundant in normal conditions, and on three subsequent occasions the Treasury had to rescue the Bank from the verge of collapse.

¹ Right Hon. Montagu Norman, speaking at the *Economist* Centenary Luncheon on September 8, 1943.

CHAPTER X

THREE CRISES (1845-66)

It is curious to observe how, through the wise and beneficent arrangement of Providence, men thus do the greatest service to the public, when they are thinking of nothing but their own gain.

Easy Lessons on Money Matters for the Use of Young People, published by the S.P.C.K. (twelfth edition, 1850)¹

The Railway Crisis of 1847

Only three years after the passing of the Bank Charter Act of 1844 another serious crisis occurred. There were bad harvests, and the Bank had to export gold to pay for foreign corn; but over and above these factors was the mania for speculation in railways which were then being built all over England. Between 1826 and 1829 about £817,000 was annually invested in new railways. In 1844 £17,870,000 was invested, and in 1847 no less than the huge sum of £132,096,000 was put into railways. On the Continent a similar orgy of investment was going on. Speculation in railway shares began. The Bank's bullion stock fell, the reserve of unissued notes sank too. The Bank Rate was raised to 5½ per cent., Consols fell, and people began to hoard coin and notes: about five million pounds' worth of notes were hoarded.

The Bank could have refused to discount bills, but that would have ruined trade. It might have printed more notes, but that was forbidden by the new Act of 1844. On October 23, 1847, the reserve fell to £1,176,000, and collapse appeared imminent. The Treasury suspended the Bank Charter Act—that is to say, sent a letter to the Bank promising indemnity for exceeding the limit of note issue—provided the Bank Rate was raised to at

¹ Charming example of Early Victorian complacency rescued from oblivion by Lord Keynes in his *Tract on Monetary Reform* (Macmillan, 1924).

least 8 per cent. (but all profits on this were to go to the Treasury). This had an immediate calming effect; people knew they could obtain currency. As a matter of fact, the £400,000 extra notes which were printed were never required, hoarding ceased, and gold flowed back to the Bank. Both during the crisis and after, the Bank lent millions to assist those in urgent need of support. But during 1847 the shareholders in ten railway companies lost £78,000,000 and Consols fell to $77\frac{3}{4}$ (October 5). On November 30, 1847, the Chancellor of the Exchequer (Sir Charles Wood, afterwards Lord Halifax, grandfather of the present Viscount Halifax) said in Parliament:

“The Bank of England was pressed for assistance from all parts of the country. . . . The whole demand for discount was thrown upon the hands of the Bank of England. Notwithstanding this . . . the Bank never refused a bill which it would have discounted at another time.”

A General Election in that year put Lord John Russell in power, and a Committee was set up to report on the financial crisis. Peel had to admit that the Act of 1844 had not compelled the Bank to take early precautions to stop the loss of gold, but he believed that it had guaranteed the convertibility of paper currency and prevented the abuse of paper credit in the form of promissory notes (*i.e.*, it had checked over-issue). He added that in his opinion joint-stock banks ought “to bear some share of the expense of keeping in reserve a stock of gold.” The reply of the joint-stock banks to this proposal was that, however prudent this policy might be, it would lock up capital and result in a diminution of their dividends to shareholders.

In 1848 the office of H.M. Paymaster-General was established, with instructions to send the Treasury a weekly statement of his account with the Bank of England.

The year 1848 was also the year of the Chartist Riots. On the 10th of April troops were quartered at the Bank for fear of an armed assault by the Chartists. A “fire-parapet” was erected round the roof of the building, and the whole of the Bank staff were sworn in as Special Constables. The Iron Duke himself (then aged seventy-nine and within four years of his death) in-

spected the Bank's defences and was seen looking at the gun positions on the roof. The Chartists did not cross the Thames, and there was no repetition of the Gordon Riots. Chantrey's statue of the Duke (towards which the Bank subscribed £100) opposite the Bank does not relate to this incident but to the building of the new London Bridge. "Panics," as Tom Paine said, "have their uses; they produce as much good as hurt. Their duration is always short; the mind soon grows through them and acquires a firmer habit than before."¹

The America Crisis of 1857

During the "Hungry Forties" while England was spending large sums on building railways, America followed suit and over-speculated on the same kind of thing, largely with foreign capital. The English harvests of 1853-55 were bad, but after that the Bank had been enabled to store up a good reserve of bullion. Californian and Australian gold discoveries of this period suddenly and greatly increased the world's gold supplies, giving an impetus to widespread speculation. In the middle of 1853 the Bank Rate rose warningly to $3\frac{1}{2}$ per cent. Strikes, record corn prices, over-production of cotton goods, the flow and backwash of the Crimean War and a subsequent slump in shipping values, sent the Bank Rate to 5 per cent. and 6 per cent. in the autumn of 1855. In the summer of 1857 there was a financial panic in New York, where out of sixty-three banks only one managed to keep its doors open. The Bank's reserve on August 17, 1857, stood at £10,000,000 in gold and £6,296,000 in unissued notes. Little thinking that this goodly amount was soon to dwindle away into almost nothing, the Bank was negotiating with the East India Company to lend a million pounds towards the cost of the army employed in suppressing the Indian Mutiny. Yet the year 1857 was to prove the most dangerous year the Bank has had to face. The causes of the crisis were:

- (1) The new gold-mines of America which raised the annual average output of gold production from £1,800,000

¹ *The America Crisis* (1821).

(1493–1850) to £26,000,000. The U.S.A. produced £80,000,000 of new gold between 1850–57.

- (2) Over-speculation in U.S.A. railway construction, on which £140,000,000 was spent in the years 1849–57. England also doubled its railway construction in the same period, and Europe was busy building railways too.
- (3) A twofold increase in the number of American banks (715 in 1847, 1416 in 1857) with a doubled note issue.

In August 1857 the big insurance, banking, and railway companies in the United States of America began to fail, with serious reactions among English investors, who are believed to have put £80,000,000 into U.S.A. stocks. The Bank of France lost 25,000,000 francs in one week. There were three increases of Bank Rate (to 8 per cent.) in eleven days in the autumn of 1857. Some Scottish banks failed and had to be supported by a million pounds from the Bank. There was an enormous rush to the Bank to rediscunt bills. Bank Rate went to 9 per cent. on November 5 and 10 per cent. on November 9. The Bank's bullion reserve began to dwindle; yet the Bank did its utmost to strengthen credit by discounting bills (£2,373,000 in one day), thus proving itself to be the only source of discount in a crisis.

On the evening of November 12, 1857, the Bank's total reserve—notes, gold, and silver—had sunk to £384,914, and, as the Governor afterwards admitted, the Bank could not have lasted another day. On that evening Lord Palmerston sent a "Treasury letter" promising to indemnify the Bank for issuing notes above the limit fixed by the Act of 1844. This was the *only* occasion (out of four) when the permission to increase the note issue had to be exercised; on the other three occasions the fact alone that the Government was behind the Bank was sufficient to restore confidence and allay panic. But in 1857, although the crisis instantly became less severe, the Bank had actually to print more notes to the value of £2,000,000, of which £928,000 was put into circulation and the rest carried to reserve.

Between September and November 1857 eighty-five firms failed, with liabilities of £42,000,000. An inquiry was ordered and the crisis was traced back to the abuse of bill-credit due to

bill-market borrowings. At one time it had been practically impossible to discount in the open market at all, and rates of 12 and 15 per cent. were being asked. The rediscounting of bills had obviously been excessive, and the Bank decided to debar the general body of bill-brokers and discount houses from the right to take bills to the Bank for discount, with certain exceptions. If any good came out of the crisis it was that

of the 'disasters' just witnessed two-thirds at least are now admitted to have been palpable blessings, purging commerce from the most pestilent beings that ever disgraced its name.¹

A depression in trade followed, thus easing the demand for credits, and by February 11, 1858, the Bank Rate was back again at 3 per cent.

The Gurney Crisis of 1866

The American Civil War led to certain events which had a disturbing influence on the economic and commercial life of England. In 1861 the United States decided for a paper currency not convertible into gold. As a result, gold came over to Europe for investment. In England the era of machinery was forcing the pace of the general industrial revolution. Large sums were being sunk in machinery, which in turn created further capital equipment. Under the powers of the Companies Act of 1862, new limited companies were springing up almost daily. Very quickly three hundred new companies were formed with a nominal capital of £504,000,000, and in 1863 new shares to the value of £145,000,000 were issued (though 90 per cent. of the companies formed between 1862 and 1865 collapsed eventually). This vast increase in new shares soon created a congestion on the investment market and they became not only unsaleable but also useless as a basis for credit. Between 1864 and 1867 there was a calamitous fall in the price of railway shares: Great Northern fell from 135 to 104, Great Western from 78 to 43, and L.B.S.C.R. from 103 to 51.

Financing by means of acceptances in a new and risky form was practised, and this proved to be one potent cause of the business

¹ *The Times*, January 1, 1858.

failures of 1866. Another disturbing factor was the blockade of the Southern States, which upset the cotton trade. Cotton had to be purchased elsewhere, generally at a threefold price increase and in countries which had to be paid in bullion. The foreign exchanges went against England in 1863, and in 1864 the Bank was twice compelled to raise its discount rate to 9 per cent. There were also rumours of war impending between Germany and Austria (Königgrätz, 1866), and in that year the first shadow of a coming commercial crisis began to appear. Some banks and discount houses failed in February, and the Bank Rate went up to 6 per cent. in April and 10 per cent. on May 11.

On May 10 the Quaker banking house of Overend, Gurney, and Company had stopped payment. Richardson, Overend, and Company, a well-known firm of bill-brokers, were joined in 1807 by Samuel Gurney (who died in 1856), and as Overend, Gurney, and Company built up an enormous London business as bill-dealers. On one occasion they felt themselves strong enough to try to put pressure on the Bank by withdrawing £1,650,000 in notes on one day, allegedly to pay dividends but in reality as a display of power. This firm had engaged in risky financial transactions, in particular with the Mid-Wales Railway Company, which had accepted bills for £60,000 payable to Overend, Gurney, and Company. The acceptances were challenged in the courts, and held to be *ultra vires* and consequently invalid. This put all Gurneys' railway securities in peril and started a run on the firm which brought about their downfall.

In their day of trouble they appealed to the Bank for a loan of £400,000 to stave off collapse. After receiving a confidential report on Gurneys' position from three leading City men, the Bank declined to assist. Gurneys could offer no adequate security and had to close their doors. The effect was sensational. Lombard Street and Cornhill were packed by frantic and noisy crowds round the banks. May 11, 1866, was another "Black Friday" (the original one was during Bonnie Prince Charlie's march to Derby in 1745). A great firm of railway contractors failed for £4,000,000, and financial panic set in. The Bank did its best to assist genuine business, and advanced nearly £4,000,000

on "Black Friday," while the reserve fell from £5,727,000 to £3,000,000. In five days (May 11-16) the Bank made advances and discounted bills totalling £12,225,000. On the evening of "Black Friday" Gladstone, then Chancellor of the Exchequer, sent a Treasury letter authorizing a note issue in excess of the limits of the Act of 1844. The Bank was so near collapse that a London banker was able to say to a Bank man on May 11, "I can draw a couple of cheques to-morrow morning which will shut you up at once."

However, the Treasury letter was sufficient to ease the situation, and this time it was not necessary to issue additional notes. Other banks collapsed with liabilities totalling £50,000,000, foreign investors appeared to shun the English capital market, but the Bank continued to discount bills. The Bank Rate remained at 10 per cent. from May 11 to August 6, yet even this failed to attract foreign investors. "There is a run on England," Sir Stafford Northcote is alleged to have said. The fluctuations in the Bank Rate during the sixteen years from 1860 to 1875 were not calculated to inspire confidence among foreigners. The lack of co-operation during the 'sixties between the Bank and the London bill market was bound to cause instability, which was reflected in the Bank Rate. In those sixteen years from 1860 to 1875 there was an average of eleven changes yearly (twenty-four in 1875!) in contrast with four changes yearly in 1845-59.¹

A quaint instance of how the Bank Rate was made to blame for internal unrest can be found in the evidence given before a House of Lords Committee in 1848:

"Any rise in the rate of discount of the Bank of England has been immediately, or at least shortly, followed by an increase of crime and of civil suits, and if it continues long, of mortality and typhus fever. So much so, that, as I am an official member of the prison board and of most of the charities, I have always made it a rule to say to the gentlemen of those boards when a rise in the rate of discount takes place: 'Gentlemen, the Bank of England have raised their discounts, you had better immediately take measures for enlarging the prison accommodation and for extending the infirmaries and poor-houses,'

¹ See W. T. C. King, *History of the London Discount Market* (Routledge).

and they have since admitted to me that my prognostications were too well founded.”¹

In 1866 it began to look as though London might lose its position as the money market of the world ; but although railway shares slumped and Consols fell sharply, the British public showed its confidence in the Bank and gold flowed back. By December 1866 its bullion and specie had risen to £19,200,000, there was a general sweep-out of doubtful companies and insecure banks, and England was to be free from a financial crisis for the next twenty-three years.

¹ Evidence of Mr A. Allison, Sheriff of the County of Lanark. *Minutes:* Q.3844.

CHAPTER XI

INTERLUDE: THE BANK FROM 1860 TO 1890

"Commodity prices do not remain at a constant level, international exchanges do not remain stable, the quantum of physical investment does not equilibrate with the quantum of aggregate saving, without continuous wise, unremitting watchfulness and direction. . . . In the nineteenth century it was a despotism, and the despot—the benevolent despot, we should like to think—was Britain, acting through the machinery of the Bank of England and the City of London."

MR F. PETHICK-LAWRENCE, M.P., in the House
of Commons, May 12, 1943

1. National Debt Management Fees

By an Act of 1861 the sums payable (under the Act of 1808) for managing the National Debt were reduced to £300 per million pounds for the first 600 millions and £150 per million beyond that.

2. Reserve

The problem of preventing these recurrent financial crises from upsetting business every ten years was eagerly debated after 1866, and many thought that the key to the whole question was "an adequate Bank reserve." Statistics have shown that on no fewer than sixty-one occasions between 1844 and 1877 the Bank's reserve had been insufficient to meet the balances held for the London bankers. The various banks themselves kept no adequate reserves; they were trading for profit and earned that profit by lending out their depositors' money, not by letting it lie idle. They kept reserve balances at the Bank of England and drew on these in times of crisis. In short, they treated the Bank as a State Reserve Bank, whereas in reality it too was a corporation trading for profit on behalf of its proprietors. To ask it to keep a large sum of money idle and to shoulder the ultimate

burden of a financial crisis and render unlimited assistance was to ask unreasonably much of it.

The whole matter was treated by the leading economist of the day, Walter Bagehot, in 1875. He maintained that the Bank was the rock of safety on which British commerce was based, that it had practically a monopoly position in note issue, and had become in fact the bank of the joint-stock banks. This rock of safety must consist of a large cash reserve: the safety of national credit must come before profits. Sir Robert Peel and Lord Goschen wished the joint-stock banks to share the expense of maintaining this cash reserve. No legislation was introduced to force the Bank to carry out this advice, but the Directors did their utmost to build up an adequate reserve without depriving the proprietors of a reasonable profit. Gradually the reserve grew from £12,000,000 in 1872 to nearly £29,000,000 in 1890 and over £44,000,000 in 1896, but, generally speaking, the reserve remained at round about £33,000,000 or £34,000,000 until 1902. Even then, however, it was equal to only about 4 per cent. of the total deposits in all British banks, a tiny safeguard in time of general crisis.

As a matter of fact, the reserve proved to be adequate until the world-wide crisis of 1914.

3. The National Debt Act of 1870

This Act stated (s. 5) that the Bank should continue to have the management of the National Debt, and (s. 13) employ a "chief cashier" and an "accountant general" to do this work (*i.e.*, keep the records, register transfers, pay dividends), and (s. 72) its life was prolonged *for this purpose* "until all stock is duly redeemed by Parliament." (For further details see chapter xxiii, part 2: "The National Debt.")

4. Gold

In the year 1880 the world possessed 9500 tons of gold, and the annual production for 1885 was 150 tons. Gold was discovered in the Witwatersrand, near Johannesburg, in 1886, and world production soon shot up to 290 tons in 1890, to 454 tons in 1899,

reaching a peak of 712 tons in 1910, dropping gradually to 563 tons in 1930, of which, however, more than half came from South Africa. This sudden increase in gold production had an enormous influence on world credit.¹

5. Treasury Bills

Exchequer bills had been the normal marketable instrument of Government floating debt, but for various reasons they were not a popular bill in the money market. The purchase of the Suez Canal shares and large advances on public works caused a sudden rise in the floating debt, and Sir Stafford Northcote took the advice of Walter Bagehot, who recommended a new short-term security "resembling as nearly as possible a commercial bill of exchange . . . issued under discount, and falling due at certain intervals." As a result, by the Treasury Bill Act, 1877, the Treasury bill was created—a Government promissory note, obtainable through the Bank, issued by tender under discount, and having a fixed currency not exceeding twelve months (generally three months): "the best form of short-term investment there is in the world" (Mr Philip Snowden, M.P., in the House of Commons, April 27, 1926).

¹ Figures from "Gold Production," by Joseph Kitchin, in *The International Gold Standard* (Oxford University Press, 1931).

² At first the issues were made only a few times a year, and for two or three millions at a time. In 1910 there were twenty-two issues, the volume of bills outstanding in April 1910 reached £36,700,000. It was during the Great War of 1914–18 that the issue of Treasury bills shot up so high (see p. 77). More recent figures are:

YEAR	WEEKLY ALLOTMENT IN MILLION £'S			TOTAL OUTSTANDING ON DECEMBER 31
	<i>Average</i>	<i>Lowest</i>	<i>Highest</i>	
1939 . . .	41.5	20	65	£1,469,900,000
1940 . . .	63.5	50	65	2,151,800,000
1941 . . .	74.6	65	75	2,547,000,000
1942 . . .	77.4	60	85	2,833,200,000
1943 . . .	86.8	75	100	3,115,200,000

6. Conversion of Consols

In 1888 the Bank carried through the work entailed by the conversion of the Three Per Cent. Consols. Goschen was the Chancellor of the Exchequer who decided to reduce the interest on the Funded Debt by converting that very large part of Consols paying 3 per cent. interest to $2\frac{3}{4}$ per cent. until 1903 and $2\frac{1}{2}$ per cent. thereafter, and payable quarterly instead of half-yearly. This plan put an enormous amount of work on the Bank's staff, dealing with the conversion of £550,000,000 of stock and preparing dividend warrants four times a year instead of twice.

7. Law Courts Branch

This was opened in 1881, at first in the new Courts of Justice and in 1888 in the present building at the corner of Chancery Lane. (On part of the site until 1799 had stood a house in which Izaak Walton, the "Compleat Angler," lived.)

The reduction of the rate of interest on Consols led the investing public to seek something more remunerative than gilt-edged investments, if more risky. South America again provided the temptation, and another crisis was in the offing.



1703

MEDALLION FROM A BANK NOTE

CHAPTER XII

1890-92: THE BARING CRISIS AND OTHER MATTERS

"We lost £4,000,000,000 of capital invested abroad between 1850 and 1935, but had not the British capitalist seen his way to take the risk involved in advancing that money abroad we should by somewhere about 1890 have arrived at the position which the United States arrived at in 1935. We should have accumulated all the gold in the world and, unless we had been prepared to advance it, no further trade would have been possible because no one would have had any more money to buy with."

SIR LAMBERT WARD, M.P., in the House of Commons,
May 12, 1943

On July 24, 1890, the Bank (then under a vigorous Governor, Mr W. Lidderdale) unexpectedly reversed its decision of 1858 and told the bill-brokers and discount houses that it was willing *at all times* to discount for them, *at not less than Bank Rate*, approved bills which had not more than fifteen days to run—a limit later raised to three months. This meant that the Bank desired regular contact with the money market with a view to exercising more control over it. By securing control of the surplus floating balances of most of the public and semi-public bodies (County Councils, etc.) and the large India Council balances, the Bank withdrew from the market a large part of the money usually available for short loan. This reduction in the supply of money induced the bill-dealers to come to the Bank for discount accommodation, which gave the Bank power to charge whatever rate it held to be proper and to prolong its control by refusing to renew the bills at maturity. Briefly, a check was put upon excessive competition for short-term funds, bill-dealers were encouraged to discount at the Bank, discount rate was high (Bank Rate or over), securities had to be first-class and short-dated, and the borrowers must be sound. As a result, the discount houses gave

preference only to bills rediscountable at the Bank, and it was to their advantage to do nothing that would bar them from this privilege.

The conversion of Consols to a lower rate of interest induced a section of the investing public to put their money into American trading securities. A great number of new joint-stock companies were floated in 1888 and 1889 (new shares were issued for £253,000,000 in 1888 and for £241,000,000 in 1889). Commercial undertakings and mortgage bonds in Brazil and the Argentine were proving especially attractive to the English public. The Argentine ran its debt up to £200,000,000, the interest on which would have absorbed 60 per cent. of that country's total exports. A sudden revolution took place, and the well-known banking firm of Baring Brothers was unsuccessful in disposing of the shares of the Buenos Aires Waterworks Company which they had underwritten. This firm had other heavy commitments among its world-wide interests and, though not actually insolvent, was in difficulty. This fact was brought to the knowledge of the Directors of the Bank on November 8, 1890.

Immediate action was necessary to save Barings and prevent a financial crisis. On November 10 a banker and a member of the Bank's Treasury Committee were instructed to report on the affairs of Barings. Consols were falling, and £4,500,000 in gold was imported from France and Russia. A meeting of representatives of leading banks and commercial firms was held at the Bank, and a Guarantee Fund (to be in existence for three years) was arranged whereby the Bank agreed to cover the liabilities of Barings.

Within two days the Guarantee Fund had risen to £10,000,000 (the final figure was £18,000,000) and the crisis was past. No other banks were involved, and Barings were not actually insolvent. After reconstruction as "Baring Brothers & Company, Limited," they were enabled to recommence business, and in 1894 the Guarantee Fund was returned to its subscribers. Mr Lidderdale was warmly congratulated by the Chancellor of the Exchequer for the way he had handled the Baring Crisis. This time a suspension of the Bank Charter Act had been avoided. In the crisis

of 1866 there had been a blind scramble for safety; in 1890 the Bank had been able to rally the other banks to support one that was falling. A Spanish proverb says "When it rains we *all* get wet," and this time the banks stuck together and increased their cash ratios as a greater safeguard for the future.

By an Act of 1892 the Bank's fee for managing the National Debt was again altered—to £325 per million pounds for the first 500 millions and £100 per million beyond that. (For fees now paid see *Finance Accounts of the United Kingdom*, issued annually by H.M. Stationery Office.) The interest on the Government debt to the Bank (£11,015,000) was reduced to the same level as that on Consols: $2\frac{3}{4}$ per cent. until 1903, and thereafter $2\frac{1}{2}$ per cent.



1712

MEDALLION FROM A BANK NOTE

CHAPTER XIII

1892-1918: SUNSHINE AND STORM

“When you are hurtling along in the rapids of Niagara you do not worry very much about the rate at which you hired the canoe.”

MR WINSTON CHURCHILL, M.P., in the House
of Commons, May 20, 1926

The twenty years between 1890 and the death of Edward VII were the splendid sunset to England's Century of Prosperity. The financial system had been tuned up to run smoothly.

Every commercial country of importance kept funds in London, while in their turn London bankers and acceptance houses extended their facilities throughout the world. Britain was the main creditor nation; but by its free-trade policy and willingness and ability to lend abroad on short term and long term, it kept her net balance of payments very near to equilibrium. There was a highly integrated international foreign exchange market. . . . The result was that the immobilization of international credit through gold movements was kept down to a minimum. International shipments of bullion were, even in a year of crisis, a minute fraction of the total international turnover.¹

In his Budget Speech during the Crimean War (March 6, 1854) Gladstone said that “the expenses of war are the moral check which it has pleased the Almighty to impose upon the ambition and lust of conquest that are inherent in so many nations.” After eighty-five years of freedom from major wars England had reduced the National Debt from £841,000,000 to £635,000,000 when the South African War of 1899-1901 broke out and sent the Debt up to £798,000,000 again in two years.

The first years of George V's reign were the lull before the storm. After fourteen years of peace the Debt had fallen almost

¹ *The Economist*, April 10, 1943.

to its 1899 level when the First World War broke out. The Governor at that time was Mr Walter Cunliffe (afterwards first Baron Cunliffe), and he bore the immense responsibility of Governorship during almost the whole war. He was blamed for raising the Bank Rate to 6 per cent. in July 1916 and for keeping it at that figure for too long, so causing the Government to borrow on Exchequer bonds at 6 per cent. But by deciding to discount pre-moratorium bills he brought instant relief to the money market and enabled the whole of the financial machine to run smoothly again.¹

On June 28, 1914, an obscure Bosnian student named Gavrilo Princip shot the Archduke Franz Ferdinand of Austria. A fortnight later the London Branch of the Dresdner Bank began to sell off its securities, and its clients took the hint: an international crisis of the first magnitude was gathering.

Those were the last days of the gold currency; the public demand for gold coin increased sharply. On July 28 Austria-Hungary declared war on Serbia. Some of the banks called in all their money from the bill-brokers, who had to go to the Bank of England for large sums. Three days later the Bank Rate went up to 8 per cent., the London Stock Exchange was closed, and the mid-August Settling Day was postponed. On Saturday, August 1, the Bank Rate was fixed at 10 per cent. and the Government agreed to suspend the Bank Charter Act of 1844, relieving the Bank of its obligation to pay in gold. The pound sterling became a 'managed currency.' A partial moratorium was declared on Sunday, August 2, and a general moratorium on August 3, enabling bills to be re-accepted for one month from maturity. On August 4, despite England's warning of the consequences, Germany invaded Belgium. (On the staff of the future German Governor at Brussels was a young official of the Dresdner Bank—Hjalmar Schacht.) At 11 P.M. on Tuesday, August 4, 1914, as the Prime Minister (Asquith) had warned earlier that day, England, determined to defend Belgium, was at war with Germany.

The Bank had only £9,000,000 of gold reserve, the Fiduciary

¹ *The Times*, January 7, 1920.

Issue stood at £18,450,000, but England had the enormous advantages of a favourable trade-balance of £207,000,000 and £4,000,000,000 in "foreign and colonial securities of the best" as a legacy from the past.

On Mr Lloyd George, then Chancellor of the Exchequer, fell the task of handling the difficult monetary situation. To gain time the August Bank Holiday was prolonged by three more days, while the new paper currency was being printed. On August 6 the Currency and Bank Notes Act, 1914, was passed authorizing the Treasury to issue "Treasury Notes" for £1 (black print) and ten shillings (red print)¹—the famous "Bradburys" (signed by Sir John Bradbury, Secretary of the Treasury, afterwards Lord Bradbury)—and postal orders were declared also legal tender. Altogether during the next six years Treasury notes for £300,000,000 were issued with a gold backing of £27,000,000 at the most; they were, in fact, "a highly profitable expedient for the Government, a war loan free of interest," according to Dr Walter Leaf, Chairman of the Westminster Bank. Although the Bank Charter Act was 'suspended,' the power to exceed the Bank's note-issue limit was not used. During the first three days of war the note-printing presses had been turning out the new little Treasury notes on the only paper available (paper reserved for printing licences), and the notes were issued through the Bank of England, which was authorized to advance these notes to the other banks up to 20 per cent. of their liabilities on deposit and current account, but the need for this lasted only a few weeks.

On August 12 and September 5 the Bank was also authorized (under Government guarantee) to discount English and foreign bills accepted prior to August 4 and to advance money to accepting houses to pay off bills at maturity. Altogether the Bank advanced £120,000,000 on bills of exchange, of which sum over £115,000,000 was paid back within three years of the end of the war.²

¹ Five-shilling and 2s. 6d. notes were also printed, but never issued.

² Mr Lloyd George's first War Budget (November 17, 1914) estimated for an expenditure of £535,000,000, balanced by £211,000,000 Revenue and £324,000,000 Loans. It is interesting to note that in this Budget Debate Mr Arthur Henderson, M.P., proposed taxing wages at source—"pay-as-you-earn"—to be collected through the employers. Rejected in 1914, adopted in 1943!

In his *War Memoirs* (1933) Mr Lloyd George tells some amusing stories of the Bank Governor (Cunliffe), whom he, however, also praises for his "wise, far-sighted, and broad point of view . . . his massive strength, his sense of humour, which he concealed under a dour and almost surly countenance." He tells how the Governor pretended to despise the new little Treasury notes, comparing their printing and paper with that of the large Bank notes, and how he brought out a dirty, crumpled pound note saying, "Look at that! It came into the Bank yesterday in that condition. I told you the paper was no good—far better have left it to us." Actually he had scrubbed and soiled the note to make it appear thoroughly dilapidated! He was a man of few words. At a conference about transshipping gold to finance American contracts for Russia the Governor of the Bank of France made a fluent speech. Mr Lloyd George said, "The Governor of the Bank of England will state the British view on the subject." Cunliffe "rose slowly and after a few preliminary puffs said, 'We do not mean to part with our gold,' and subsided into his chair." Better still is the story Mr Lloyd George tells of his and Cunliffe's return from Paris to Boulogne during the war. Mr Lloyd George wished to make a detour through Béthune, which was occasionally shelled by the Germans. Cunliffe reminded him that Michael Godfrey, the first Deputy Governor, had been killed in the trenches before Namur when visiting William III, adding, "But he was there on business with the King, and the City said 'Poor fellow.' But if I were hit in the stomach at Béthune they would all say 'D——d fool—what business had he to go there?'"

The enormous cost of the war is shown by the increase in Funded Debt and Treasury bills. In August 1914 the Government owed £15,500,000 on Treasury bills. This means of raising short-term loans was found so convenient that in July 1921 the amount of Treasury bills outstanding was over £1,207,000,000, while the National Debt had increased from £649,000,000 in 1914 to £7,434,000,000 in 1919. Mr Lloyd George estimated that the war cost England, in taxation and loans, £10,000,000,000. These figures alone give some indication of the vast increase in the work of the Bank due to the increase of Treasury bills and the

registration or inscription of the various War Loans, apart from the proportionate increase in all its printing work.

The urgent need for money in August 1914 led the Government to obtain power to raise funds "in such manner as the Treasury may think fit and on such terms as they may think fit."¹ With the National Debt rocketing up, the question of the Bank's "management fee" came up for reconsideration. The War Loan Act of 1915 contained a clause that the management fees due to the Bank of England and the Bank of Ireland for sums raised under the Acts of 1914 and 1915 should be "such sums as may be agreed upon between the Treasury and those Banks respectively." Subsequent War Loan Acts have repeated this method of remuneration.

Bank notes, postal orders for the G.P.O., Indian rupee notes, dividend warrants for the many and various Government stocks, prospectuses for Government Loan issues, were all printed at the Printing Department inside the old Bank. During the same war the Bank printed also Navy, Army, and Air Force allowance drafts in various colours for pay offices up to 3,000,000 documents a day, also War Loan stationery, prospectuses, and application forms up to 2000 documents a minute. Watermarked paper was required for over 550,000,000 documents, Loan Issues, Treasury bills in all sorts of currencies, Egyptian postal orders, Corporation bills, Premium Exchequer bonds, dividend warrants, etc.

In 1917 additional space for printing work had to be obtained in City Road. In 1918 the Bank printed about a thousand million "security documents" and bought St Luke's Hospital, Old Street, E.C., for conversion into a huge modern printing works, but work did not commence there until 1919.

The Asquith Government made the same mistake in 1914-16 that Pitt had made in the early years of the war with Revolutionary France; it avoided high taxation and took the easy road of short-term borrowing, funded from time to time. The principal War Loans issued were as follows:

November 1914. First War Loan. £350,000,000 (at 95) at 4½ per cent.

¹ War Loan Act, 1914.

June 1915. Second War Loan. £901,000,000 (at par) at 4½ per cent. (included £597,000,000 "new money").

January 1917. Third War Loan. £2,075,000,000 (at 95) at 5 per cent. (included £948,000,000 "new money") or at 4 per cent. tax-free.

June 1919. Victory Loan. £409,000,000 (at 80) at 4 per cent. (included £231,000,000 "new money").

1919-21. £359,000,000 Victory Bonds (£71,000,000 old conversions) and £632,000,000 National War Bonds, both at 5 per cent.

The mere accountancy work of registering all these new stocks and bonds (including conversion from lower-rate to higher-rate issues) was colossal, and at first the Bank was simply unable to provide space for the increase in staff that was required. It was then that an old connexion of two hundred years before revived: the Grocers' Company (in whose Hall the Bank had lodged for forty years) offered their Banqueting Hall in Grocers' Hall Court, between Princes Street and Poultry, as a temporary office, rent-free. This was used as an annexe to the Bank for two years, and it was there that the work of registering the first and second War Loans was done.

One of the shrewdest financial thinkers during the war was Mr Falconer Larkworthy, then Chairman of the Ionian Bank, who made a clever forecast of the need for an international Clearing Union and an international currency in a letter to the *Financial News* of September 27, 1915. It is almost an anticipation of the Keynes Scheme of 1943. The *Financial News*, in its leading article entitled "The Dawn of World Finance" of the same date, said that for two hundred years the Bank of England had gradually assumed a predominance over the whole banking system of the Kingdom by its moral supremacy, the fruit of a couple of centuries of unstinted public service.

But now [it went on to say] when the authority of the Bank of England is wielded in friendly counsel with the heads of the other great banks, we are brought face to face with a financial problem which is no longer British but which has to do with the world at large. All the Western European nations, as well as the United

States, now enjoy a banking system more or less centralized and modelled, consciously or unconsciously, upon the precedent elaborated in Threadneedle Street. The separate units are in existence, the next step must be to link up with one another. Consolidation must be extended from the national to the international. . . . Exchanges and currencies will be managed, commerce and social adjustments energized by new and vast financial resources. . . . Unity and consolidation will be the new financial gospel.¹

An amazing example of clear-sighted vision.

The fighting came to an end on November 11, 1918. The Bank's War Memorial took the form of a bronze statue of St Christopher holding up a boy in his arms, the older generation as the supporter of the new. The statue is in the garden of the Bank, and is the work of R. R. Goulden.²

¹ Requoted in *The Financial News*, May 14, 1943.

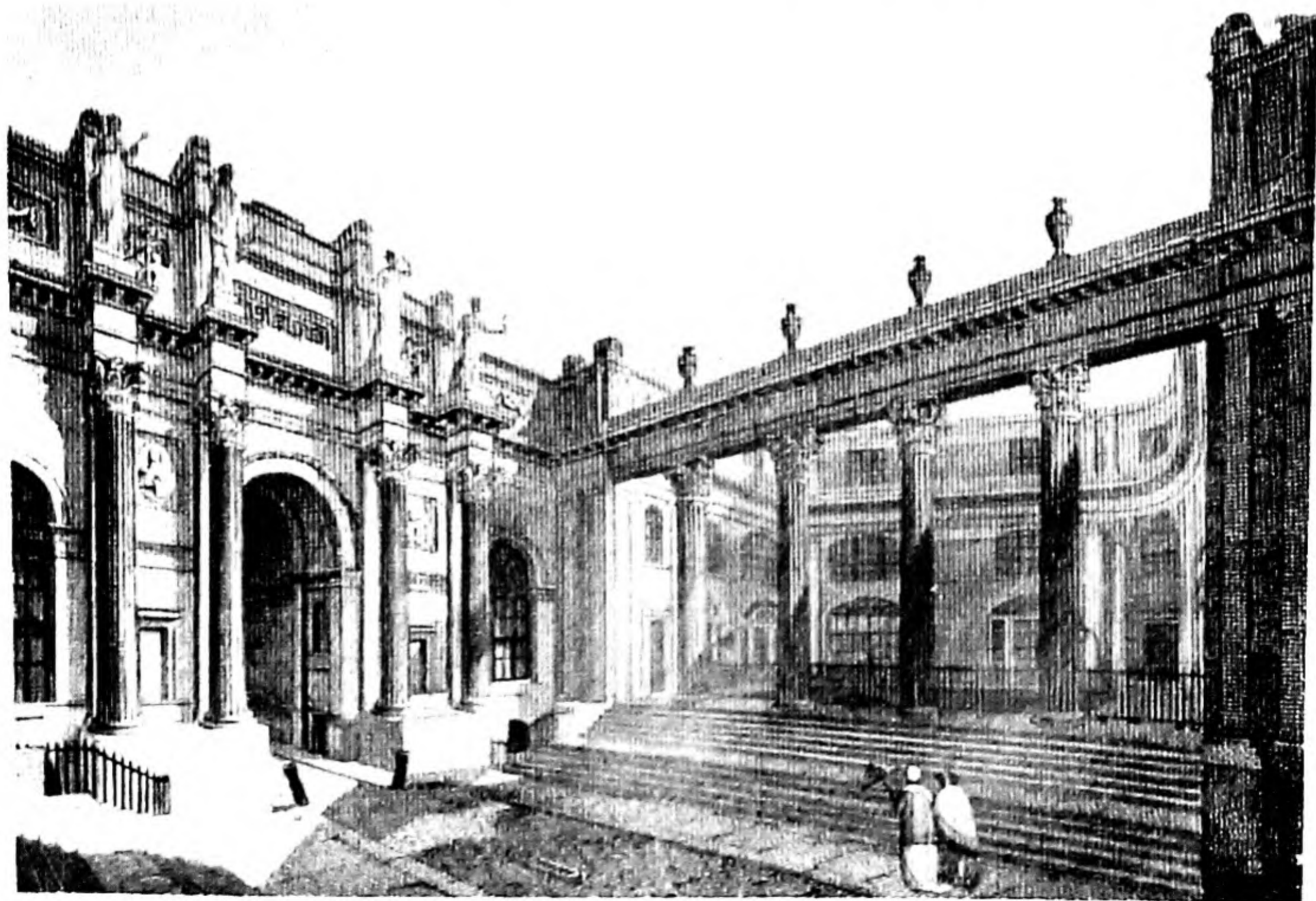
² Canadian-born. He designed the War Memorial of the 1st Canadian Division at Le Cateau.



SOANE'S BANK OF ENGLAND

The Threadneedle Street frontage is here seen, with the tower of St Bartholomew Exchange in the background.

From an engraving by William Tombleson after Thomas Shepherd



LOTHBURY COURTYARD

This engraving shows the east end of the courtyard, designed by Sir John Soane in 1798-99.

From an engraving by John Burnet after James R. Thompson



BANK OF ENGLAND DOLLAR TOKEN

By courtesy of the Trustees of the British Museum



OLD STAFFORDSHIRE DISH SHOWING THE BANK

Blue-and-white ware. The Bank is shown as it appeared about 1830.

From a drawing

(See p. 132)

CHAPTER XIV

THE TWENTY YEARS' TRUCE

1919-25: THE RETURN TO GOLD

"Gold," wrote Columbus, as one enunciating a truism, "constitutes treasure, and he who possesses it has all he needs in this world, as also the means of rescuing souls from Purgatory and restoring them to the enjoyment of Paradise."

R. H. TAWNEY, *Religion and the Rise of Capitalism*

On January 10, 1920, the Peace Treaty was ratified: a treaty which, in the words of Mr J. M. (now Baron) Keynes, "was not wise, which was partly impossible, and which endangered the life of Europe."¹

The Reparations Commission fixed the cost of the war at £24,000,000,000 and expected Germany to pay £1,200,000,000 per annum in gold or gold-value securities. In 1921 the former sum was reduced to £6,600,000,000 (requiring a service of £1,000,000 a day). The most brilliant English economist of the day, Mr J. M. Keynes (described by M. Tardieu as "the pro-German scribe from Cambridge"), estimated the maximum possibly to be expected at £2,000,000,000 (or £63,000,000 per annum in gold or gold-value securities for thirty years), and his forecast of the possible was very nearly right. Subsequently the Dawes Scheme reduced the annual payments to £125,000,000, the Young Scheme reduced them again to £100,000,000 (falling prices offset these reductions to some extent), and, after Germany had paid in goods and money £1,026,000,000 between 1918 and 1931 during a steep decline in world trade and a catastrophic fall in prices, the Lausanne Conference of 1932 postponed further payments and, in effect, put an end to Reparations.

In March 1919 the British Government 'unpegged' the exchanges—*i.e.*, decided it would no longer use up its resources and

¹ *A Revision of the Treaty* (Macmillan, 1922).

increase its foreign indebtedness to support sterling. As a result, sterling and European allied currencies fell heavily, but a breathing-space had been gained to keep trade booming while the demobilization was taking place.¹ In 1920 an Act was passed forbidding the export of gold and silver, except under licence, until December 31, 1925 (a shrewd forecast of the year in which England was to return to the Gold Standard).

The war-time controls were precipitately withdrawn (fatal step!) in 1919, and wholesale prices soared to three times their pre-war level. Merchants, manufacturers, and speculators tried to cover their forward requirements as quickly as possible in anticipation of a further rise. Taking 100 as the figure for 1914, clearing banks' deposits rose to 190 in 1918 and 240 in 1920, while wholesale prices rose to 240 in 1918 and 320 in the spring of 1920.

An orgy of spending set in and a great inflation of values took place as though war had made the country richer instead of poorer, whereas in reality there had been a vast lending of money (debt) levying an annual toll (interest) in perpetuity but without the creation of wealth out of which to pay it.

The Lancashire cotton industry provided one glaring example of post-war speculation. Cotton-cloth had risen from 3*d.* a yard in 1913 to 9*d.* in 1918, jumping to 1*s.* in 1919 and 1*s.* 5*d.* (400 per cent. on pre-war) in 1920. The working classes of Lancashire poured their savings into the mills in expectation of booming world trade; mills worth £1 a spindle were sold for £8 a spindle. The slump soon followed. Cotton-cloth fell to 11*d.* a yard in 1921 and to 8*d.* in 1922, while the mills which had cost £8 a spindle were sold for 5*s.* a spindle.

Altogether during 1920 £328,000,000 of new capital issues were floated (as against £36,000,000 in 1913). The banks became apprehensive of this vast speculation on future prosperity, and called in their loans and overdrafts. To meet these claims the manufacturers threw their goods on the market, and the position was aggravated by the Government selling its vast stocks of war-stores. A price-collapse of 50 per cent. took place in a few

¹ See Dr Paul Einzig, *World Finance since 1914* (Kegan Paul), pp. 49-50.

months. Wages fell and unemployment began to increase. On top of all this came the effect of deflation.

In 1918-19 a Committee (presided over by Lord Cunliffe, the Governor of the Bank at that time) had been appointed to report on the monetary situation.

It favoured the principle of a fixed fiduciary issue embodied in the Act of 1844 subject to the continuance of the provisions of the Act of 1914 under which the Bank of England could, with the consent of the Treasury, temporarily issue notes in excess of the statutory limit.¹

Mr Larkworthy gave evidence before this Committee and proposed that "the liquidation of final balances may now take the form of book-entries or of an issue of some form of international legal tender credit." But this wise advice (in some ways an anticipation of the Keynes Plan of 1943 and its practical mechanism) fell on deaf ears. The Cunliffe Committee recommended that when the fiduciary issue should have been reduced to an amount consistent with a central gold reserve of £150,000,000 the outstanding Treasury notes should be replaced by Bank of England notes, and since that Report the Government decided on a policy of deflation—*i.e.*, to reduce the quantity of paper money in circulation—raising the exchange value of the pound as against the dollar and bringing the general price-level in England to something like the general price-level in the United States, and thus get back to the Gold Standard at the old parity. Deflation between 1920 and 1926 reduced the volume of Treasury notes from £320,000,000 to £246,000,000.

The Genoa Conference in the summer of 1922 was Mr Lloyd George's brave attempt to construct a world economic system.

It was an Œcumenical Council, comparable to those the Medieval Church used to summon for the salvation of Christendom. And, as in the Middle Ages, a terror overhung the gathering that failure might portend catastrophe to European civilization.²

Unfortunately (chiefly because of the obstinacy of M. Poincaré), this historic Conference brought forth little beyond a pious

¹ Macmillan Report (1931).

² Count Kessler, *Walther Rathenau* (Howe, 1929), p. 322.

currency declaration recommending (1) continuous co-operation among Central Banks, (2) a monetary convention based upon a gold exchange standard, and (3) the regulation of credit to maintain currencies at par and prevent undue fluctuation in the purchasing power of gold. But no attempt was made to put these recommendations into practice, and the big chance was dithered away. The Supreme Council refused to heed "the warnings of the Genoa Conference that an international Gold Standard could not work without co-operation between the Central Banks of the world to stabilize the value of gold in terms of commodities."¹

Meanwhile England had not funded the American Debt, which was costing £35,000,000 a year, in dollars, for the interest-service. In 1923 the Governor of the Bank (Mr Norman) and the Chancellor of the Exchequer (Mr Baldwin) were sent to Washington to arrange a settlement. They agreed that principal and interest due amounted to 4,075,000,000 dollars and should be repaid over sixty-two years (making an average interest rate of 3·3 per cent.). The United States thought this a fair settlement at a time when Europe was spending £500,000,000 a year on armaments. "They [the Americans] used to say to me quite frequently . . . 'If you in Britain and in Europe have money to spend upon armaments you can afford to pay debts,'" said Mr Morgan Jones, M.P., in the House of Commons on April 21, 1932. But really the United States should have readjusted its production system so as to allow the debts to be paid in goods and services. The problem of the war debts was a problem of the international exchanges. The victors (excepting America) were loaded with war debts, the vanquished had extinguished theirs by inflation but were saddled with even heavier debts called Reparations (larger than all the allied debts to the United States). The United States insisted on payment, without giving her debtors the necessary facilities for acquiring dollars with which to pay. Formerly, international trade had kept pace with international indebtedness; after 1918 the former shrank while the latter had enormously expanded.² International trade was also further hindered by an unnatural

¹ Mr Robert Boothby, M.P., in the House of Commons, April 25, 1932.

² See Dr Paul Einzig, *World Finance since 1914*, chapter xi.

scramble for strategic raw materials by the Continental opponents and victims of Germany, and when Germany joined the scramble in 1933 and further complicated it by her barter agreements the position became far worse. Meanwhile, in 1923 Europe was wasting its substance on armaments without keeping a firm hold over Germany's power to rearm. Reparations and war debts might have been cancelled (England cancelled her claims on France and the Continental allies four years after Waterloo) but, if they were not to be cancelled, the settlement of the American Debt on the terms arranged was not inequitable in principle. It was the transfer problem which America would not help England to solve, and eventually the trade barriers, the drift of gold to France and America, together with the shrinkage of the world's markets, forced England to default on this settlement.

It was in that year (1923) that the English National Debt reached its post-war peak of £7,742,200,000.

Having wound up the war, funded the American Debt, and begun to reduce the amount of Treasury notes, the way was clear for the next big step—a return to the Gold Standard.

In his Budget Speech of 1925 Mr Winston Churchill said: "The policy of successive Governments and the Treasury and the Bank of England has been to move steadily towards the resumption of the Gold Standard."

He acted "in accordance with the overwhelming majority of responsible opinion of the day. . . . It was in keeping with tradition, and most people in his place would have acted likewise."¹ Once again it was Mr J. M. Keynes who sounded the warning note in his articles in *The Nation* of that year, described by Mr Churchill as "a series of searching and brilliant articles, formidable and instructive, in favour of a managed currency." Mr Keynes gave his praise in the right quarter: "I agree that the experts at the Treasury and the Bank of England who have managed the currency during the past few years have been wonderfully successful."

Among other critics were Mr Snowden and Sir Josiah Stamp.

¹ Dr Paul Einzig, in *The Financial News*, September 10, 1943.

In his Budget Speech Mr Churchill said that the Brussels and Genoa Conferences had urged a return to gold (and the regulation of credit with a view to preventing undue fluctuation in the purchasing power of gold) and that the American exchange was favourable. The time had come to make London again a free market for gold and to permit the export of gold at once. The convertibility of Bank notes and Treasury notes was to be optional at the discretion of the Bank, gold coinage would not be resumed, and the amalgamation of Bank notes and Treasury notes was to be postponed until the Bank had built up a gold reserve of at least £155,000,000. The Treasury reserve of £27,000,000 to guarantee Treasury notes was transferred to the Bank of England in exchange for Bank notes. Mr Churchill admitted, however, that for England to remain on the Gold Standard it would be essential to increase production for export to keep the exchange favourable.

The Gold Standard Act, 1925, which revived the form of gold-bullion standard suggested by Ricardo in 1809, obliged the Bank to sell bullion (gold bars) to anyone on demand at the old coinage price of £3 17s. 10½d. per standard ounce in amounts of not less than 400 fine ounces (one bar). Supporting the Bill in Parliament, Mr Churchill put forward three reasons. (1) It would give the nation continuous contact with reality: "We are often told that the Gold Standard will shackle us to the U.S.A. . . . I will tell you what it will shackle us to. It will shackle us to reality." It would (2) effect a stability of prices, and (3) keep us united with the Dominions, otherwise they might trade in dollars instead of pounds. As Mr Churchill explained later, a gain of only ten cents in the dollar saved us £5,000,000 a year on our purchases from the U.S.A. and £750,000 a year on the interest on our War Debt to that country. But, once more, political events and a world-wide depression in trade were to provide a case similar to that of the Canadian poet (Robert W. Service) who wrote:

I wanted the gold and I got it,
Came out with a fortune last Fall:
But somehow life's not what I thought it,
And somehow the gold isn't all.

CHAPTER XV

CENTRAL BANKING AND THE BANK FOR INTERNATIONAL SETTLEMENTS

"There are two other things externally to which over those years I have really devoted the greater part of my time. The first of these . . . was the stabilization of European countries which had lost what they had possessed before the war. . . . The second thing was in many ways more difficult, and to some extent has been less achieved, but is in process thereof; that was, to bring about the co-operation among the Central Banks of Europe and the world on the sort of lines which were originally sketched at Genoa."

MR MONTAGU NORMAN, evidence at the Macmillan
Commission (1930)

The story of how the Bank came to be the Central Bank controlling the credit situation could fill a book and is highly technical. To give the barest outline is all that can be attempted here.

The beginning may be found in the last quarter of the eighteenth century, when the smaller banks began to keep balances with the Bank of England. The "suspension of cash payments" in 1797 led people to believe that the Government would always back the Bank during a crisis. From that year, when the Bank's notes were declared to be optional legal tender for all payments, the country banks began to regard them as a backing for their own notes; so much so that in 1819 the Bank began to protest against the assumption that it was responsible "for supporting the whole National Currency." As a matter of fact, after the Napoleonic Wars the Bank's stock of gold had become practically the sole source of supply, and in the 1825 crisis the Bank lent freely to the country banks not only with gold but by a reissue of the £1 notes from the "restriction period." In 1832 the Governor then in office (Palmer) said that the Bank's function was to furnish paper money which the public needed and to be a place of safe deposit for Government funds and the money of individuals who

preferred a public body like the Bank to private bankers. Not a word about controlling the credit situation or the exchange value of the currency.

The first thing to do was to eliminate the flood of small notes issued by the country banks (Act of 1826). Then the Bank had to acquire power to lend at more than the 5 per cent. rate permitted by the Usury Laws and to fix its discount rate at a figure which would discourage borrowers in a crisis (Act of 1833). The next move was to make the Bank the sole note-issuing bank, to fix the amount of its note issue to a fiduciary issue (£14,000,000 of Government securities) and a stock of gold, and to make the note-issuing side independent of the purely banking side (Act of 1844).

In 1844 the Bank had prospective sole control of the note issue and the right to adjust its discount rate (Bank Rate) to the state of the demand for credit: by raising the rate it could stop the flow of gold out and the withdrawal of foreign balances, strengthen the foreign exchanges, and restrict credit by discouraging internal borrowing. Or it could be used to put the brake on a too-rapid expansion of trade. By lowering the rate, the contrary results would be obtained and credit expanded. "Open-market operations" are another means of controlling the credit situation. Banks cannot create money out of nothing; only Parliament can do that, and it does it by authorizing its Central Bank to increase the note issue against Government security (usually Treasury bills) for the increase. The Central Bank can, however, influence the credit situation by buying or selling (*e.g.*, $3\frac{1}{2}$ per cent. War Loan) in the open market. If it buys the seller receives a draft on the Central Bank, and pays this into his account at a commercial bank through which the draft goes to create a claim by them on the Central Bank for the amount of the purchase price. This becomes part of the commercial bank's deposit at the Central Bank, withdrawable in notes. The commercial banks usually give credit to their customers in the ratio of 10 : 1 of the Cash Reserves. So that by this open-market operation the commercial bank is enabled to expand its credit to the extent of ten times that of the increase in its Cash Reserve. Obviously an increase would only be necessary where the banks

had already lent up to their chosen limit. However, the creation of credit is based not solely on a 10 per cent. Cash Reserve, but on the interplay of confidence (with or without collateral security) between banker and customer which keeps the credit situation stable, in the same way that the interplay of magnetic force keeps the solar system stable. By selling securities the Central Bank would, of course, effect a restriction of credit in the same way. But all this is done in accordance with the financial policy of the Government of the day.

In the year 1873 Walter Bagehot published his book *Lombard Street*. Bagehot pointed out that the whole structure of English, and at that time Continental, credit was ultimately dependent on the gold reserve of the Bank of England, and advocated a system of Central Banking.

The fundamental duties of the Bank of England, according to Bagehot, were three: to operate with a degree of caution and impartiality beyond what would be required of an ordinary enterprising business, to maintain and build up the reserve in ordinary times, to use the reserve without stint or limitation in times of panic. Bagehot's doctrine as to the Bank's right policy in times of panic was, perhaps, his most characteristic and significant contribution to the practice of the day. . . . Bagehot nationalized the Bank of England fifty years ago.¹

The system recommended by Bagehot gradually developed until 1914, when it collapsed: England's free gold market and the Bank's monopoly of note issue (the main feature of the Act of 1844) were abandoned. The system was restored after the war, when England returned to the Gold Standard in 1925 and the Bank controlled the whole note issue from 1928.

The Brussels International Finance Conference of 1920 had recommended that "in countries where there is no Central Bank of Issue one should be established." Most countries have taken this advice, including the Balkans, Russia, the British Dominions, and India. The Macmillan Committee (1931) reported that a Central Bank should possess four rights in particular:

- (1) the right of note issue;

¹ Mr J. M. Keynes, in *The Banker*, March 1926.

- (2) the right to hold the reserves of the commercial banks ;
- (3) the right to buy and sell securities, and
- (4) the right to discount.

In return, it must be able to safeguard its cash reserves. The Governor (Mr Norman) gave his opinion on the duties of a Central Bank before the Indian Currency Commission of 1925-26, saying that a Central Bank must control the note issue and the output and intake of currency, hold and manage the Government balances and the reserves of other banks, manage the National Debt, act as the Government's financial agent at home and abroad, and control the contraction or expansion of credit to secure stability within and without.

Contact with commercial institutions is necessary to prevent a contrary policy being adopted ; the conduct of open market operations by the Central Bank is important, but such a bank should have no direct association with industry. A Central Bank is the bankers' bank for its country (the Bank of England held £162,198,054 as "Bankers' Deposits" on March 8, 1944). It can restrict credit when necessary by raising the Bank Rate (*i.e.*, increasing the price of money) and so check borrowing, encourage liquidation of stocks, stimulate exports, and put a brake on imports, until the balance of payments is achieved. The resulting lower price-level produces a reduced demand for currency, and so puts an automatic brake on the issue of notes. In short, a higher Bank Rate results in a lower note issue, and tends to attract foreign deposits. A Central Bank should be independent of the State, as the State generally has a temptation to print notes instead of increasing taxation. It must be free from political influence (especially in the matter of appointing its Governor), or it will have no guarantee of a continuity of policy. It should control all the country's gold reserves, which should not be left split up among numerous banks ; and should have power to deal in foreign exchange (but not merely for a profit) inasmuch as foreign exchange is a less clumsy means of settling a balance of payments than exporting gold. All these desirable features are to be found now in the Bank of England. It publishes a weekly return of its assets and liabilities, but no annual profit-and-loss account.

To secure collaboration among Central Banks and to create an organization to direct their co-operation, the Bank for International Settlements was founded in 1929 on the recommendation of the Committee of Experts under the Young Plan and in pursuance of an international agreement to which the British Government was a party. The Bank of England became a shareholder, and the British Government deposited between two and three million pounds. The B.I.S. was to be a "League of Central Banks," something on the lines of the League of Nations. London being the world's free market for gold and the best bill market, the seat of the new Bank should have been in London, but political rivalries between France, Germany, Italy, and Belgium made agreement on London impossible, and eventually the choice fell on Basle in Switzerland. Mr McGarrah, President of the Federal Reserve Bank of New York, was elected Chairman, and the sixteen Directors included (*ex officio*) Mr Montagu Norman (Governor) and Sir Otto Niemeyer (later a Director), of the Bank of England.

The new Bank had an authorized capital of 500,000,000 Swiss gold francs (200,000 shares of 2500 Swiss gold francs each). It has generally paid a dividend of 6 per cent. on its paid-up capital (125,000,000 francs). Seven Central Banks—Belgium, England, France, Germany, Italy, Japan, and the United States—were the founder-shareholders, and the statutes declared that these banks should retain their seats on the Board even if they disposed of their shares. Eighteen other European Central Banks subsequently became shareholders. The purpose of the B.I.S. was to straighten out the tangle in the foreign currencies and to prevent them from slipping into disorder again, and to carry out the agreement on Reparations. One of its great advantages was that the heads of Central Banks as members of the Board would have monthly meetings for exchange of views. It was intended to organize financial assistance to countries in need of temporary aid, to assist the arrangement of transfers on Reparations account, to assist in establishing a gold-clearing system so as to avoid unnecessary shipments of gold between Central Banks, and to regulate the distribution of gold on sale, thus excluding

undesirable competition for supplies. The B.I.S. did much useful work, but two years after its foundation England was forced off the Gold Standard, the Lausanne Conference of 1932 put Reparations into cold storage (from which they never emerged), and the 'gold bloc' countries made currency collaboration impossible. When those countries also went 'off gold' political rivalries had been awakened and Germany was taking a bold line of her own towards the State management and State subsidizing of foreign trade which had a most disturbing effect on world trade. After its loans in Central Europe had become 'frozen' the B.I.S. could take little or no part in international finance, greatly to the disappointment of Mr Montagu Norman, as he explained in his speech at the Bankers' Dinner in 1932.

In the annual Report for 1942 the President of the B.I.S. (then Mr McKittrick, of the United States) wrote that the B.I.S. "has constantly adhered to the principles of scrupulous neutrality laid down for itself." An example of this scrupulous neutrality is the matter of the Czech gold in 1939 (which was *not*, as is sometimes erroneously thought, "handed over to the Germans by the Bank of England"). The true facts are as follows:

The National Bank of Czechoslovakia had deposited £6,000,000 in gold with the B.I.S., and shortly after the entry of the Germans into their country instructed the B.I.S. to pay it away. The latter, on legal advice, had no option but to honour the usual signatures of the National Bank. (The re-deposit of gold by the B.I.S. with the Bank of England, *in its own name* and without any indication of ultimate ownership, has nothing to do with the story. The Bank of England took—inevitably—the instructions of the B.I.S.) When the National Bank, a little later, instructed the Bank of England to pay away gold deposited in London in *its* name, the Bank of England could *and did* refuse, because by then legislation had been passed 'blocking' Czech assets in this country for the benefit of British creditors of Czechoslovakia.

During the Second World War the position of the B.I.S. underwent one curious change. When Germany had overrun the greater part of Europe it controlled the Central Banks of the invaded countries. In 1942 the United Nations controlled 47,000

shares in the B.I.S.; the Axis Powers controlled 152,000. But the shareholders have no rights of control over the B.I.S.; such rights are vested in the Directors (mostly Central Bank Presidents *ex officio*), for whom the head of the B.I.S. holds proxies during the war. In the same report (1942) Mr McKittrick referred to the problem of future "collaboration in the field of economic and monetary relationship. . . . The public feels instinctively that a way can and must be found to establish effective co-operation without impairing the vital interests of individual countries." This is a pointer to post-war international economic organization and to "world planning on the grand scale." The American Bankers' Association has declared that

The experience with the B.I.S. showed to those who studied its operations the value of such an institution. . . . Speaking generally, there is much to be said for building upon machinery which already exists.¹

This proposal, however, is unlikely to be acceptable to the British and American Treasuries, and, in view of the Keynes (Clearing Union) and White (Stabilization Fund) schemes for a post-war system of exchange and the proposed International Bank for Reconstruction, the prospects for a continuation of the B.I.S., especially at Basle, do not appear very rosy.

¹ See *Report of Economic Policy Commission of American Bankers' Association*, issued in November 1943.

CHAPTER XVI

THE TWENTY YEARS' TRUCE 1926-31: DRIVEN OFF GOLD

Now with a general Peace the World was blest,
While Ours, a World divided from the rest,
A dreadful Quiet felt, and worser far
Than Armes, a sullen Interval of War.

JOHN DRYDEN, *Astræa Redux*

By putting the pound back on the Gold Standard, the Government was really gambling on a rise in prices in the U.S.A., for the value of the pound abroad was raised 10 per cent. whereas its internal value in cost of living and wages remained unaltered. In short, the foreign buyer was asked to pay 10 per cent. more for our exports. This difference could only be set-off by a rise in gold-prices abroad or a fall in wages and cost of living at home. Without such an adjustment, exports were at a disadvantage, imports were favoured. To offset an adjustment of prices, the attempt was made to reduce wages and costs. In 1926 a 10 per cent. reduction in coal-miners' wages led to a Coal Strike which developed into the first "General Strike" England had ever known.

When, in 1926, it became obvious that "certain grave and disquieting conditions" were "retarding the return to prosperity," the leading bankers and industrialists in Europe and America (including the heads of a dozen Central Banks, Mr Montagu Norman among them) joined in signing the "Bankers' Manifesto"¹ of October 20. It protested against tariff barriers and other impediments to trade imposed "in pursuit of false ideals of national interest." "Trade," it said, "is not war, but a process of exchange . . . in time of peace our neighbours are our customers . . . and their prosperity is a condition of our well-being." *The Economist*² described this "weighty and brilliant" plea against trade barriers as "one of the great economic documents of

¹ "A Plea for the Removal of Restrictions upon European Trade." For text see *The Economist*, October 23, 1926, pp. 668-670.

² *Loc. cit.*

history." It was right against the advice of the bankers that the world went after the wrong ideal of economic nationalism.

The next step was to bring the whole note issue under the Bank's control. In November 1925 the pound and ten-shilling Treasury notes (three series in all) were superseded by new ones (pound notes green, with a picture of the Threadneedle Street façade of the old Bank on the back, and ten-shilling notes rust-brown). The Currency and Bank Notes Act of 1928 put the whole paper currency (from £1000 to ten shillings) under the control of the Bank. Introducing the Bill in Parliament, Mr A.M. Samuel, M.P. (then Financial Secretary to the Treasury), said :

"No man who has studied the economic development of Britain during the nineteenth century can have failed to notice the position which the Bank of England has established for itself in the respect of the nation. The country is very proud of the Bank of England. It is with complete confidence that His Majesty's Government have decided by this Bill to entrust the management of the currency note issue to it." ¹

The new fiduciary issue was fixed at £260,000,000 (all notes above that to be covered by gold). The main provisions of this Act were :

- (1) the new one-pound and ten-shilling Bank notes were to be legal tender in the United Kingdom ;
- (2) such notes might be issued up to the amount of gold in the Issue Department and a further £260,000,000 as fiduciary issue covered by securities (and silver up to £5,500,000) ;
- (3) net profits of the note issue (not including Scottish) to go to the Treasury ;
- (4) the Treasury had power to reduce the fiduciary issue for any period "after consultation with the Bank" or permit an increase for six months (renewable, but not more than two years in all) ;
- (5) the Bank received power to commandeer gold stocks above £10,000 "with a view to the concentration of gold reserves and to securing economy in the use of gold."

¹ In the House of Commons, May 12, 1928.

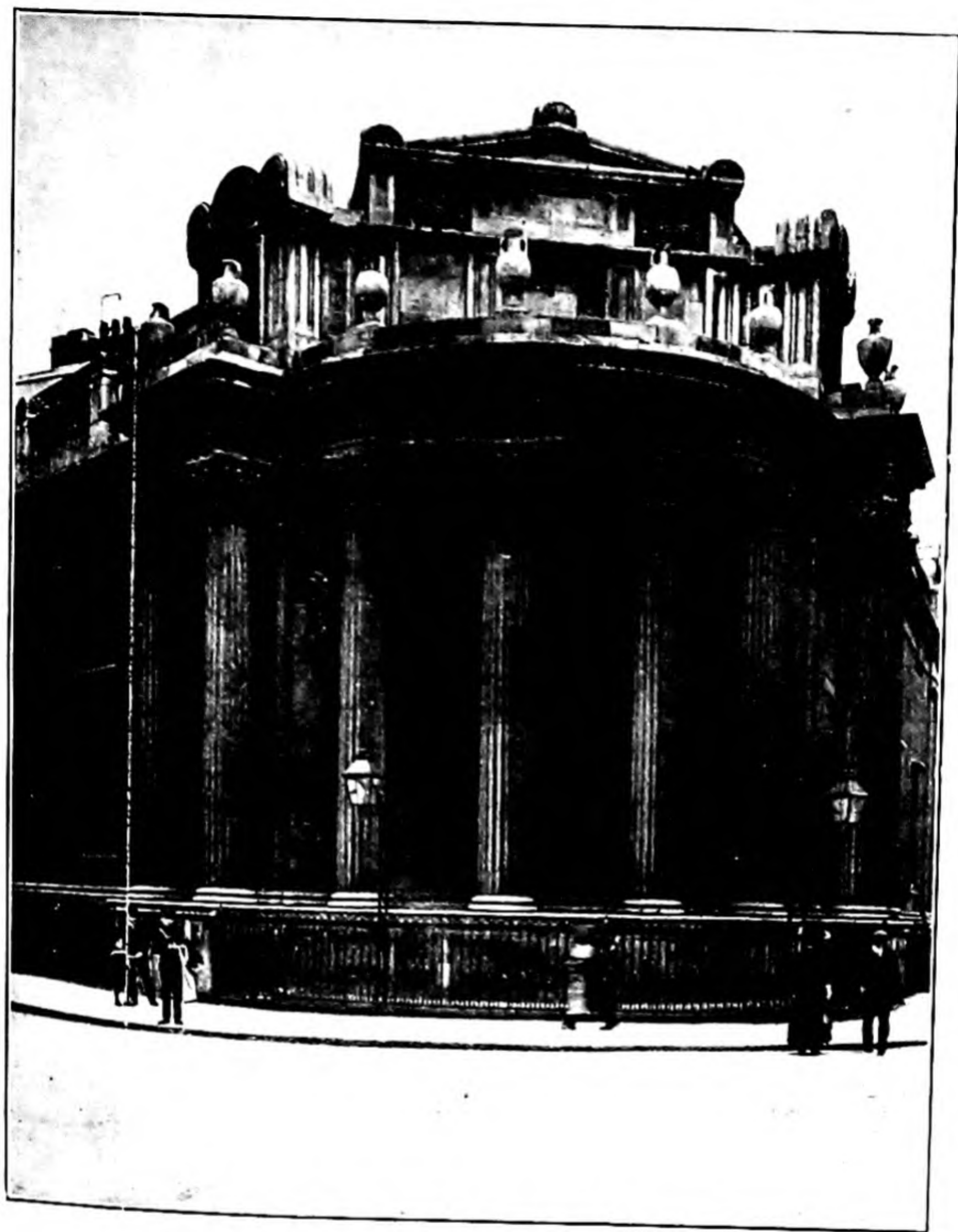
Meanwhile, many countries were in debt to the U.S.A. for goods and war debts, and the U.S.A.'s high-tariff policy necessitated payment in gold or dollars. The result was a commercial boom in the U.S.A., but the world could not buy, and a heavy slump set in. England's "net trade balance" would have dwindled to a "net debit," which alone would have sent her off the Gold Standard if other causes had not hastened the process.

These were the collapse of the Austrian Kreditanstalt in May, the German Reparations crisis in July, and the sudden withdrawal of short-term foreign balances, all in 1931.

The Austrian Kreditanstalt was in difficulties and required a foreign loan of 150,000,000 Schillings (£6,000,000) to save it. Its perilous position was a danger-signal of the same thing possibly happening in Germany, where a larger crisis would have had serious repercussions on Reparations and world trade in general. The Bank of England proposed to make a short-term loan, and recommended the Austrian Government to float an international funding loan to cover it. The Austrian Government wished to take up the old German proposal to form a Customs Union with Germany to strengthen Austrian credit, but France refused to assist in the loan unless the Customs Union plan were abandoned. The Governor of the Bank boldly advised the Government that England should lend the entire amount without political conditions, even at the risk of offending France. But the need for the new short-term advance of £6,000,000 was urgent, and the Bank (with the knowledge and approval of the Government) advanced the money, of which £2,000,000 was afterwards repaid by the borrower. Recommending England's participation in the subsequent international loan, Mr Hore-Belisha, then Financial Secretary to the Treasury, defended the Governor's action and said the Bank had acted

"from charitable motives at a moment of very great distress. . . . If you look upon the world as a common whole, the various parts having obligations towards one another, it would not pay a country in our position to allow another country to fall. If you preserve that country you preserve the work of your own people, because you preserve the whole commercial system."¹

¹ In the House of Commons, December 20, 1932.



SOANE'S TIVOLI CORNER

Designed in 1804-5 and completed in 1807-8, it was at once recognized as a master-work. In 1835 it appeared on the reverse of the Gold Medal presented to Sir John Soane by the Architects of England.

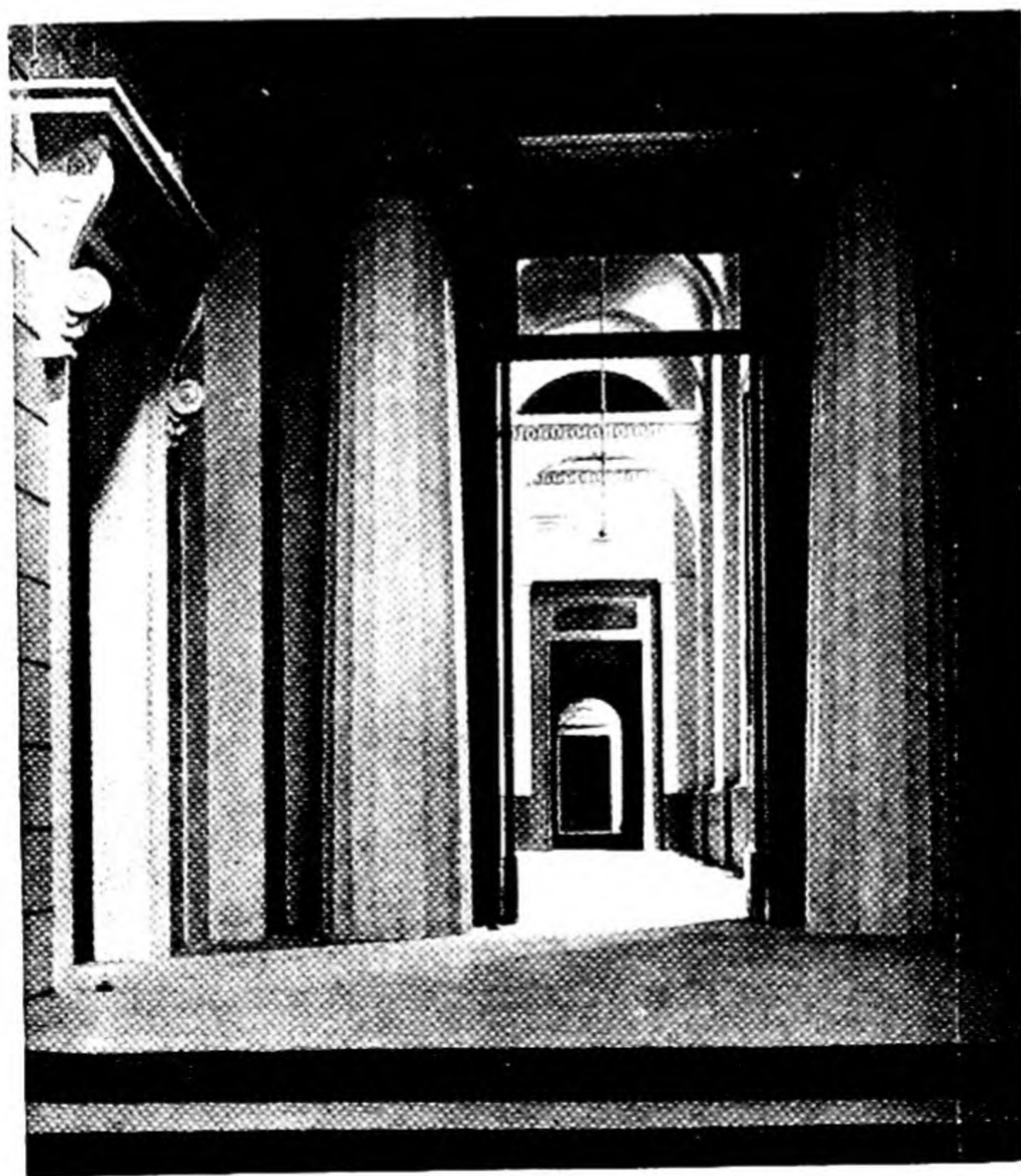
By courtesy of the Trustees of Sir John Soane's House and Museum



THE COURT ROOM

Designed by Sir Robert Taylor in 1774 for the old building (shown above) and almost exactly reproduced in 1935.

Photo F. H. Yerbury



THE PRINCES STREET VESTIBULE

A perfect example of Scott's pure Greek style, designed in 1804-5 and almost exactly reproduced on the third floor of the new building.

The Austrian Loan Bill (to provide funds out of which the Bank was to be repaid) was passed in February 1933, and during the debate Mr Hore-Belisha repeated his opinion that "... the Bank of England took a course of action which was in the best interests of the world and a course which met with the approval of the Government." As a matter of fact, the Kreditanstalt was not saved by this loan, and its collapse had reactions all over Europe and intensified the transfer crisis of war debts. America was calling in the short-term loans to Germany (238,000,000 dollars in gold left Germany in January 1931). On July 13, 1931, the Danat Bank failed, and all the German banks were temporarily closed. Germany was on the verge of collapse when President Hoover proposed a moratorium on war debts and so prevented an international crisis of the first magnitude.

As to the withdrawal of foreign balances in 1931, the City had been borrowing heavily on short-term since 1925 from France, Holland, Switzerland, and the United States, and lending to Central Europe (especially Germany and Austria). After the May Committee had reported that the British Budgets were not balanced by about £80,000,000 and had recommended a cut of £66,500,000 in unemployment benefit, foreign lenders became alarmed. They saw

national surplus of production over consumption dwindle as the result of the trade depression and finally vanish; they saw the Labour Government running more and more deeply into debt over the Unemployment Fund; and as they concluded that under these conditions the parity of sterling could not be maintained indefinitely, they decided to play for safety by repatriating their savings before the depression of the pound actually set in.¹

So they called in their loans. But the City bankers were unable to get their money back out of Central Europe (not necessarily because their debtors were unsound), and the "Standstill Agreements" of 1932 were arranged. The proper remedy for the adverse balance of trade would have been to balance the Budget, restrict currency and credit, and reduce costs step by step. But a different course was chosen—short-term loans with

¹ Leading article in *The Times*, September 2, 1931.

all the risks of withdrawal. In his pamphlet *Go Back to Gold* (1931) Dr Frederic Benham points out how the lack of flexibility in England's economic structure (resistance to wage reductions, immobility of labour, failure to switch to new markets and re-equip industry) was the fundamental weakness. We refused to do what we had always told others to do. Such were the causes; now for the results.

In the summer of 1931 London held £400,000,000 in foreign short-term deposits, and gold began to leave the country at an alarming rate. In July the Bank lost £30,000,000 of gold. On August 1 it had to ask for a foreign loan of £45,000,000, and on August 15 the Treasury authorized an increase of £15,000,000 in the fiduciary issue. During August another £50,000,000 of gold left the country. The Bank Rate rose to $3\frac{1}{2}$ per cent. in July and 4 per cent. in August. By August 22 the £45,000,000 recently borrowed had melted away, and in order to peg the exchange a further £80,000,000 had to be borrowed by the Treasury in New York and Paris. But France had not forgotten her humiliation over the loan to the Kreditanstalt, and a condition was made by the lenders: the Budget *must* be balanced. That meant that the Government must implement the advice of the May Committee and make the big cut in unemployment benefit (cease borrowing to pay it). The Trades Union Council vetoed this proposal, and the Labour "Left Wing" raised the cry of "A Bankers' Ramp," meaning that financiers were attempting to influence the British Government's policy by threatening to cut off supplies. On August 23 the Labour Government revolted, and two days later Ramsay MacDonald formed a National Coalition. Snowden had to balance the unbalanced Budget, and did what Walter Bagehot (described by Gladstone as "England's permanent Chancellor of the Exchequer") had said a Chancellor ought to do—namely:

arrange his finances so as not to intensify panics, but mitigate them. He must aid the Bank of England in the discharge of its duties; he must not impede or prevent it. . . . He is on finance the natural exponent of the public opinion of England.¹

¹ *Lombard Street*, chapter iv.

Snowden's Speech of September 10, 1931, was one of the most masterly Budget Speeches ever made, ending with a moving list of gifts from all classes, rich and poor, from peer to factory girl, even to the money-boxes of the kiddies, and concluding with a stirring quotation from Swinburne. He announced rigorous economies and higher taxation.

From Chicago came forth sensational headlines: "Pillars of the Bank of England Crumbling," "England Rushing to her Doom," and such like.¹

Yet still the withdrawals of gold went on, until on September 19 the Deputy Governor of the Bank (the Governor being away) reported to the Prime Minister that the recent foreign credits were exhausted and that the withdrawals continued, and asked to be relieved of the obligation to sell gold under the Act of 1925. On the next day—a Sunday—the Cabinet agreed to the request and the Bank Rate was put up to 6 per cent. (the only occasion on which the Bank Rate was announced on a Sunday). On Monday, September 21, the MacDonald Cabinet introduced a Bill before Parliament allowing the pound to become inconvertible into gold and promised an Act of Indemnity. On the same day the Stock Exchange was closed and the value of the pound fell to 17s. 3d. abroad. England was off the Gold Standard again and back to sterling as a managed currency.

A measure of the depression in old gilt-edged securities is provided by the fact that £100 of 2½ per cent. Consols bought for £110 in 1898 were sold for £55 in September 1931. In January 1931 the gold stock of the Bank stood at £148,000,000; on September 21 the amount was £134,000,000, but credits amounting to £130,000,000 had been used up in the effort to remain 'on gold.'

Once more Mr J. M. Keynes showed that he had the true vision. In a letter to *The Times* on September 28, 1931, he wrote:

Let us give our whole attention and united energies to devising a sound international currency policy for ourselves and the rest of the world. For it is futile to suppose that we can recover our former prosperity without such a policy, or that tariffs can be any substitute for it.

¹ William Teeling, *Why Britain Prospers* (Gifford, 1938).

The Larkworthy Plan of 1917 was forgotten, and Mr J.-M. Keynes had to wait another twelve years before his advice was taken and his plan adopted by the Government as a basis for debate.

Summing up the year 1931, Professor (now Sir Theodore) Gregory described it as

a year of unparalleled economic collapse throughout the world. International trade has been utterly disrupted, the international gold monetary standard has been almost completely abandoned; the central banking system, for which so many great things were expected ten years ago, has been severely strained. . . . It was the year of the great depression. It was the most gloomy of the mournful sequence that has filed past since the hectic hopefulness of 1919 and 1920.¹

And, as the Rev. Arthur Johnson, Chaplain of All Souls College, had said, every country was yearning for "that world which the Peace cannot give."

¹ *Manchester Guardian Commercial Annual Review of British Trade, 1932.*



1740

MEDALLION FOR BANK NOTES AND POST BILLS

CHAPTER XVII

1932-39: THE STRUGGLE FOR PEACE

No man is an Iland, intire of its selfe; every man is a peece of the Continent, a part of the maine; if a Clod bee washed away by the Sea, Europe is the lesse, as well as if a Promontorie were, as well as if a Mannor of thy friends or of thine owne were; any man's death diminishes me, because I am involved in Mankinde; And therefore never send to know for whom the bell tolls; It tolls for thee.

JOHN DONNE, *Devotions*, xvii

"It tolls for thee"; and, as we should say to-day, Peace is indivisible. It is easy to be wise after the event, but clearly it would have been to the advantage of the Allies if they had written off their entire Reparations claim against Germany as a bad debt and had concentrated on keeping Germany disarmed. By seeking to enforce payment of a fantastic sum (and in the end collecting barely 16 per cent. of it) the economic life of the industrial nations was thrown out of gear and the whole world kept constantly in a state of apprehension.

The date 1932 is a milestone marking a complete change in England's financial policy. In a supplement to the Svenska Handelsbanken "Index" (October 1939) Mr F. G. Conolly points out that

the year 1932 divides two contrasting seven-year periods—in the first we had the gold standard, a freely moving Bank Rate, and a long-term yield frozen at a high level; in the second, managed currency, a freely moving long-term yield, and Bank Rate frozen at a low level.¹

The country was burdened with over £2,000,000,000 of War Loan at 5 per cent. (one-third of the total Government internal debt, two-thirds of the Government long-term unfunded debt in sterling) and this set the standard for fixed-interest rates

¹ *Reflections on the Cheap-money Policy, particularly in England.*

as a whole, the others being adjusted in price to produce a similar yield. From 1925 to 1929 the Bank Rate averaged 4.85 per cent., varying from $2\frac{1}{2}$ per cent. to $6\frac{1}{2}$ per cent., to protect the gold reserves; the national finances had to carry a high long-term interest rate and a large floating debt as well, while in 1931 there was an adverse balance of trade.

After abandoning the Gold Standard the Government decided to follow a 'cheap money' policy. The Amended Budget of September 1931 showed a small balance, and during the winter the adverse trade balance was greatly reduced and the flight of short-term foreign funds was stopped and turned in the other direction. Sterling, which had dropped to 3.25 dollars in the middle of December 1931, rose to 3.50 dollars in January 1932 and stood up to the strain of Government purchases of dollars and francs to repay New York and Paris for loans to support gold. The Bank Rate, which had gone up to 6 per cent. on September 21, 1931, gradually fell to 2 per cent. in June 1932, at which low figure it was to remain for the ensuing seven years. The Bank also assisted this favourable turn of affairs and the liquidity of the money market by large purchases of securities in the open market to increase the cash reserves of the banks at the Bank of England.

It was at this moment—the end of June 1932—that the Chancellor of the Exchequer (Mr Neville Chamberlain) decided to convert the £2,000,000,000 of 5 per cent. War Loan into $3\frac{1}{2}$ per cent. War Loan and so lift some of the burden from the Budget. Ninety-two per cent. was actually converted, and the work of registration kept the staff of the Bank (plus an army of 'temporaries') hard at work for months. This action reduced the debt service from £300,000,000 to £210,000,000 and marked the end of the 'dear money' period and the beginning of the 'cheap money' period. In fact, the long-term rate became even lower, the yield on new $3\frac{1}{2}$ per cent. War Loan falling below 3 per cent. in 1935, and so remained for another two years, when other tendencies became operative (rising commodity prices, the £1,500,000,000 rearmament programme, and withdrawal of foreign funds). Minimum prices stopped all this in August 1939.

As Mr Conolly points out, the advantages of the 'cheap money'

policy on the gilt-edged market were a reduction in debt service (taxation) and a capital improvement in profit-earning securities. The disadvantages were that the reduction of interest hit the small man harder than the big man, encouraged the Government to spend money borrowed cheaply, forced up the value of high interest-bearing securities, and caused a boom in the share market, letting loose a flood of speculative new issues.

And to prevent a repetition of the foreign exchange crisis the Exchange Equalization Account was established in July 1932 under the control of the Treasury, with the Bank as its executive agent. The Government instituted an Exports Credit Department in 1931 to guarantee the finance of foreign trade believed to be too risky for the ordinary acceptance houses (*e.g.*, trade with Russia), and a Foreign Investment (Advisory) Committee, including representatives of the Bank, to advise the Treasury as to the effect of loans abroad on the sterling exchange. The attitude of the Bank towards these reforms was expressed in a speech made at the Mansion House in 1936 by Mr Montagu Norman:

“I assure Ministers that if they will make known to us through the appropriate channels what it is they wish us to do in the furtherance of their policies, they will at all times find us willing with good will and loyalty to do what they direct us as though we were under legal compulsion.”

Before the outbreak of the war in September 1939 the Account worked thus: in certain market conditions it supplied currency in demand or bought currency offered in order “to prevent undue fluctuations in the exchange rates.” By means of its gold and Treasury bills it could either buy or sell. In some instances the Account and the Bank bought or sold gold to each other in exchange for Treasury bills and these transfers account for the rise and fall of the Bank’s fiduciary issue at various times prior to September 1939.

By the Currency and Bank Notes Act, 1939, the Bank’s gold stock was authorized to be revalued and the fiduciary issue was reduced from £400,000,000 to £300,000,000. (The gold stock, £126,000,000, was revalued at £221,000,000.) On the outbreak

of war in September 1939 all the Bank's gold (except a small amount) was transferred to the Account and the fiduciary issue increased from £300,000,000 to £580,000,000; the amount transferred was about £280,000,000 at the then price of 168s. per fine ounce.

One example may be given of the Bank's assistance to promote employment and efficiency in the basic industries. In 1938 Richard Thomas and Company, Ltd., the great Welsh steel and tinplate makers, found that the cost of extending their vital new plant at Ebbw Vale far exceeded the capital at their disposal. A banking consortium headed by the Bank of England put £5,500,000 at their disposal, and the Securities Management Trust (which is controlled by the Bank of England) invested a further half-million. As a result, during the present war Richard Thomas and Company were able to produce 10 per cent. of England's steel, 25 per cent. of its iron sheet and 50 per cent. of its tinplate.

Some critics have tried to make the Bank responsible "between the wars" for the closing of redundant shipbuilding yards, and in particular for the tragedy of Jarrow. These critics are aiming at the wrong target. It was the shipbuilding industry which decided to concentrate on certain vital yards and close the others. Having decided that, the question of financing their scheme was put before the Bankers' Industrial Development Company (of which the Bank of England is a leading member), and they provided the money. If the shipbuilders did not protect their distressed areas the Government should have done so. The bankers, who merely provided the money, surely came in last? ¹

Meanwhile the clouds of war were gathering. The Munich Agreement of September 1938 was one attempt to avoid a conflict; not a stone was left unturned. To give one example, a rumour gained currency ² that the Secretary of the Department of Overseas Trade (Mr R. S. Hudson) had offered the German Economic Minister (Herr Wohltat) a loan of £1,000,000,000, on

¹ The facts were set out in a Presidential Address to local shipbuilders by Mr J. Ramsay Gebbie (General Manager of William Doxford and Sons, Ltd., of Sunderland), who told the whole story from the shipbuilders' point of view.

² See *Daily Telegraph*, July 22, 1939.

terms, to enable Germany to convert its war industries to peace-time requirements. The Prime Minister denied this, but apparently

"owing to some appalling indiscretion the whole story came out . . . the question is how Germany, if she disarms eventually, is to get out of the vicious circle in which she is enclosed to-day. . . . Any reasonable person talking to another expert on the subject would naturally say, . . . 'I think if you can get to the point of evacuating Czechoslovakia . . . if you ever get to the point of accepting disarmament, then I believe we would consider giving you a loan to help you out of your vicious circle.'"¹

That is a sidelight on the willingness of Great Britain to go to almost any lengths to save the peace. But all attempts seemed hopeless. The world was feverish; of its £6,000,000,000 in gold available for currency purposes, five-sixths lay buried in the vaults of Fort Knox, Kentucky. The world was producing 1,500,000,000 dollars' worth of new gold every year, equal in value to the whole of the silver, copper, lead, tin, zinc, and aluminium produced in the world annually.² And all that in order to bury it again at Fort Knox! Mr Chamberlain and the Governor of the Bank had exhausted every means to preserve peace—the Bank for International Settlements, the Lausanne Conference, the Exchange Equalization Account, the Munich Agreement, the Hudson-Wohltat conversations, all had been of no avail. Germany was determined to gain her ends by force, if necessary. On September 1 Germany attacked Poland, and two days later Mr Neville Chamberlain declared that England was again at war with Germany.

¹ Mr Harold Nicolson, M.P., in the House of Commons, July 31, 1939.

² Mr Robert Boothby, M.P., in the House of Commons, May 12, 1943.

CHAPTER XVIII

1939-44: THE BANK DURING THE SECOND WORLD WAR

“In times of national danger or crisis, I am not prepared to say that there is anything that the Bank would not do, if it were really in the national interest and consistent with its primary duties to the community.”

SIR ERNEST M. HARVEY (then Deputy Governor), before
the Macmillan Committee, 1930

When the Austrian lance-corporal “resolved to become a politician” in 1918 the seeds of the next terrific world combat were sown. The Treaty of Versailles and the Covenant of the League of Nations were doomed to fail in their main purpose; but

it has been estimated that from about 1500 B.C. (Moses) to the Treaty of Versailles no less than 8000 treaties of peace have been made, all of which were intended by their framers to last for ever, and which on an average have lasted about two years. In the same period of history there have been 227 years of peace to 3130 years of war: thirteen years of war for every one of peace.¹

The war of 1914-18 had increased the National Debt from £680,000,000 to £7,000,000,000. During the following “Twenty Years’ Truce” this sum had not been reduced but had actually been increased by another £1,000,000,000, making £8,000,000,000, while during the same period £5,600,000,000 had been paid in interest service.² The management and servicing of all these vast sums of debt indicate the great increase in the stock side work of the Bank. And in the next four years the debt more than doubled itself (see chapter xxiii, part 2: “The National Debt”).

At the outbreak of war in September 1939 the Bank Rate stood at 4 per cent. (August 24), but by October 19 it was back again at 2 per cent., at which figure it remained stable. The joint-stock banks had over 9000 branches, and the Bank’s clerical staff had

¹ The Rev. K. Ilderton, in the *Harrogate Advertiser*, June 6, 1942.

² Dr Russell Thomas, M.P., in the House of Commons, May 5, 1942.

risen to 3500. The Bank's Stock Transfer Office was moved to Whitchurch (Hants), and the transfer of Inscribed Stock was ordered to be done by deed (*i.e.*, by instrument in writing, not by attendance). The Clearing House removed the greater part of its business to Trentham, near Stoke-on-Trent. The London Stock Exchange closed from September 4 to 7.

Extensive financial regulations were announced by the Government, including foreign exchange control, Treasury monopoly of gold and certain (not all) foreign, colonial, and dominion securities, and control of new capital issues. (In 1942 new capital issues, other than Government issues, were only 3.9 millions as against 376.1 millions in the boom year of 1929.) To avoid possible loss during an invasion of England the title-documents of Britain's foreign investments lodged with the large banks were collected by the Bank of England and sent in a warship for safe custody to Canada, where they were housed in a deep vault of the Sun Life Building. A small staff of the Bank's officials was sent out to take charge of the filing and clearing of these documents, so that when the Government vesting orders began in October 1940 the holdings affected could be transferred in Canada to the account of the British Government and paid for in England without any hitch. A large part of the foreign investments were gradually realized, but the need to sell the remainder was obviated by the Lease-Lend Agreement with the United States in March 1941.

On Monday, September 4, the banks closed for one day. Further foreign exchange regulations were announced. The dollar rate rose to 4.02, fell to 3.75 on September 18, and stabilized at 4 on September 22. The price of gold was fixed at 168s. per fine ounce. On September 6 the Bank's gold—£280,000,000—was transferred to the Exchange Equalization Account and the fiduciary issue raised from £300,000,000 to £580,000,000. The Bank discounted approved bills (accepted before September 3) to approved acceptors at 2 per cent. above Bank Rate (with a minimum of 6 per cent.). The one pound and ten-shilling (green and brown) Bank notes were soon superseded by new ones in blue and lilac printed on the 'metallic thread' paper as an additional precaution against forgery.

At the outbreak of war Britain's financial reserves were larger than in 1914, but the strain on them was also greater. Our overseas investments in September 1939 were estimated to be worth £5,000,000,000, which by the end of 1942 had fallen to £2,650,000,000.¹

All the moneys received and spent by the Government pass through the books of the Bank as the Government's banker. Some idea of these sums will be seen from the following table, where they are stated in millions of pounds:

—	1940	1941	1942	1943	1944
Actual expenditure	3867	4776	5286	5632	5798
Actual revenue	1409	2074	2627	2819	3038
Actual deficit	2458	2702	2659	2803	2760

The Government decided to finance the war on cheap money. A comparison with the previous war will illustrate this:

—	1914-17	1939-42	1943
Average rates of long-term debt	5 per cent.	2½ per cent. ²	2½ per cent.
Average rates of floating debt	4½ per cent.	1 per cent.	1 per cent.
Proportion of war costs paid out of Revenue	21 per cent.	40 per cent.	55 per cent.

These low interest rates were made possible by contributions to War Savings funds 'on tap' at 2½ per cent. and 3 per cent. and by borrowing the deposits at the banks at 1 per cent.³ By pinning prices and rationing goods the Government restricted spending, and as the war industries gradually expanded the unspent earnings of war workers flowed into the banks; and the Govern-

¹ Mr Nicholas Kaldor, in the *Economic Journal*, October 1943.

² 3 per cent. Savings Bonds classed as long-term, 2½ per cent. National War Bonds as medium-term.

³ Treasury bills about 1 per cent., Treasury Deposit Receipts to 1½ per cent.

ment borrowed them as short-term debt against Treasury Deposit Receipts.¹

A breakdown in health caused the retirement of Mr Montagu Norman on the threshold of his twenty-fifth year of office as Governor. He had been the adviser of many Chancellors of the Exchequer, Socialist and anti-Socialist, and been respected by them all.

"The Governor of the Bank of England is a man who is universally respected and trusted. . . . No man has done more towards the rehabilitation of the financial life of Europe. . . . His work in this respect will probably never be fully known or acknowledged, but it has been inestimable."²

And as for the City :

The great power which he exercised for many years is not inherent in the headship of the Bank of England. It was gradually conferred on him, or assumed by him, because, after the last war, the City needed a leader and the Governor filled the need. People submitted to his sometimes severe touch, not because they had to, but because they respected and liked him.³

He will also be remembered for his efforts to arrange co-operation among Central Banks, for his policy of bringing new blood into the Court of Directors, and for his system of expert advisers. After 1939 he carried the heavy burden of Governor during an era of record figures in all departments, air raids, blackout, and Exchange Control. He himself had a narrow escape from death in the air raids on London in 1940-41 when his private residence had a direct hit from a bomb. Many Directors devoted their full time to Government work. Lord Catto, who succeeded Mr Norman as Governor in April 1944, was appointed Financial Adviser to the Treasury on July 1, 1940, and thereupon resigned from the Court. Lord Kindersley played a vital part as

¹ Treasury Deposit Receipts (six months' loans by the banks to the Treasury bearing interest at $1\frac{1}{8}$ per cent.) are a war-time expedient to absorb surplus bank cash. Introduced in June 1940 and issued at the Bank (C.C.O.), they became the largest item among the earning assets of the banks, amounting on December 31, 1943, to £1,401,000,000, or 28 per cent. of the whole Floating Debt.

² Mr Philip Snowden, M.P., in the House of Commons, May 14, 1928.

³ *Manchester Guardian*, January 25, 1944.

Chairman of the National Savings Committee. Lord Stamp was appointed Economic Adviser to the Government on October 16, 1939, but was killed in an air raid on April 16, 1941. Lord Keynes (the former Mr J. M. Keynes), who took Lord Stamp's place on the Court, published early in 1940 a little book entitled *How to Pay for the War*, in which he put forward a scheme for compulsory saving by making a proportion of wages into "deferred wages" payable after the war. This plan became operative in another form when Sir Kingsley Wood extended the greatly increased taxation to include ten million new wage-earners and gave "certificates of post-war credit" by which a proportion of the large taxes deducted would be repayable after the war. He also prepared a plan for a system of multilateral clearings.¹ Sir Andrew Duncan (a former Chairman of the Executive Committee of the British Iron and Steel Federation) became Controller of Iron and Steel in 1939, President of the Board of Trade in 1940 (when he left the Court), and Minister of Supply in the same year and again in 1942. Lord Hyndley (chairman of South Wales coal-mining companies) became Comptroller-General of the Ministry of Fuel and Power. Mr Basil Sanderson (a shipping expert) was largely responsible for the expeditious delivery of food and other supplies to England in the first years of the war. Mr I. J. Pitman was appointed Director of Organization and Methods at the Treasury in May 1943.

The Bank established a new Foreign Exchange Control Office at Glasgow in 1940. The Plymouth branch was damaged by a direct bomb-hit in 1941, and on April 29, 1941, a new Southampton branch was opened. The building, of stone, was designed by Mr Victor Heal, F.R.I.B.A. Mr Charles Wheeler, R.A., was responsible for the sculpture, a replica of the "New Lady of Threadneedle Street" being the centre of the pediment.

The Head Office received one direct bomb-hit during the air raids of 1940-41 which did slight structural damage not visible from the street but broke an enormous number of windows and glass partitions. Two 'near misses' were scored by heavy high-explosive bombs, one between the Bank and the Royal Exchange

¹ See Glossary: "Keynes Plan."

and the other between the Bank and the Mansion House, putting the "Bank" Underground station out of action for many months. Wellington, on his bronze horse in front of the Bank, might well have repeated his Waterloo comment: "Hard pounding this, gentlemen. We will see who can pound the longest."

The summer and autumn of 1940 were the period of the "Battle of Britain" in the air, and on September 19 the half-yearly Court of Proprietors was held (for the first time in the Bank's history) underground in the vaults. Many of the departments were transferred to underground offices, while the blackout and disturbance to traffic made it necessary for half the Head Office staff to work and sleep on the premises for part of the week and remain at home for the other part.

The appointment of Lord Catto produced the following interesting comment:

. . . As regards policy, it is clear that for some time past the power has shifted from Threadneedle Street to Whitehall. . . .

Never before has a Governor of the Bank served his apprenticeship at the Treasury, although there have been cases of eminent civil servants going from the Treasury to the Bank. Sir Otto Niemeyer is one of them.

Lord Catto's return to the Bank is not only a symbol of the transfer of financial power; it is also a token of continuity of the policy which sees in cheap money and abundant credit the best monetary setting for ensuring maximum economic expansion.¹

And, lastly, to answer the question, "What are the functions of the Bank to-day?"

The Bank is a corporation authorized by Royal Charter with a capital of £14,553,000 owned by about 15,000 proprietors (shareholders), mostly in holdings of £500 or under. These small holdings have no voting rights: only a holder of £500 or more has a vote at the Court—and only one vote—no matter how high the value of such holding. The annual dividend since 1923 has been 12 per cent. less tax. In 1943 the clerical staff amounted to nearly 4100 (more than a quarter in the Foreign Exchange

¹ Mr Oscar Hobson, in the *News Chronicle*, April 11, 1944.

Control Department). The Court of Directors meets every Thursday; the Court of Proprietors half-yearly.

. . . Though the Bank is nominally a private company out to make a profit, it has, in fact, the same tradition for national service as a Government department, and is able to eliminate most of the difficulties suffered by Ministers responsible to Parliament. The Bank has, in fact, been well described as an institution having all the advantages of a Government department and few of its defects.¹

The Government is financially interested in the Bank, inasmuch as it receives the net profits of the Issue Department (see chapter xxiii, part 1).

To-day the Bank of England has the following functions:

- (1) It acts as the Government's banker. Therefore the enormous sums of Revenue and Expenditure pass through the books of the Bank. By the Bank Charter Act of 1844 weekly accounts are sent to the Treasury and printed in the *London Gazette* (for statistics, see chapter xxiii).
- (2) It manages the National Debt (floating, short-term, medium-term, and long-term), but not that managed by the Post Office Savings Bank and only some of the Colonial and Dominion Debt, arranges new issues and conversions, pays interest due to holders, and records nearly a million transfers in a year.
- (3) It has a monopoly of note issue for England and Wales (the Scottish and Northern Ireland banks hold a reserve of Bank of England notes to cover the note issue of banks in Scotland and Northern Ireland). The Treasury expands or restricts the fiduciary issue at the request of the Bank. For example, the Lords of the Treasury pass a Minute to increase the note issue by x millions. The Bank's Banking Department then transfers to the Issue Department x millions value of Government securities (Treasury bills and other

¹ Dr Oscar Faber, in *Country Life*, November 13, 1942.

securities) which it has acquired, and upon that security the additional Bank notes are issued. The net profits on the note issue go to the Treasury.¹ The handling of the fiduciary issue is part and parcel of the general management of the currency by the Bank of England in accordance with a policy laid down from time to time by H.M. Treasury, with whom the Bank works in the closest collaboration.

- (4) It fixes the Bank Rate to steady sterling. By raising, it restricts internal credit; by lowering, it expands it. "There can be no doubt that Bank Rate policy is an absolute necessity for the sound management of a monetary system and that it is a most delicate and beautiful instrument for that purpose."²
- (5) It carries on the remains of its private banking business, but has for long not opened new private accounts for the general public; buys and sells bills; clears for the Bank of Ireland and Royal Bank of Scotland.
- (6) It prints the Bank notes, dividend warrants, coupons, etc., for all the Government Stocks and many Colonial issues. *E.g.*, it pays £33,000,000 half-yearly among 1,250,000 stockholders of the 3½ per cent. War Loan of 1932.
- (7) It acts as "the bankers' bank"—*i.e.*, holds the cash reserves of clearing banks, foreign Central Banks, Empire Central Banks, foreign, colonial, and dominion banks, financial houses, discount brokers.
- (8) It offers Treasury bills for public tender.
- (9) It administers the Exchange Equalization Account.
- (10) It collaborates (in normal times) with other Central Banks directly and through the Bank for International Settlements (two seats on the Board).
- (11) It distributes new coined money and receives back worn coin as agent for the Royal Mint. (In 1942 the Mint had a record output of 355,300,000 new coins, value £12,100,000.)

¹ See chapter xxiii, part 1: "Bank Notes."

² Macmillan Committee Report (1931).

- (12) It encourages internal trade to help industry and agriculture through its holdings in subsidiary companies, such as the Securities Management Trust, Ltd. (whole capital), Bankers' Industrial Development Company (part capital), and the Agricultural Mortgage Company (part capital).
- (13) It acts (to-day) as agent for the Treasury in controlling financial side of foreign trade, keeps blocked sterling accounts of foreign countries and the sterling holdings of "sterling area" countries, keeps register of holdings of foreign securities, and acquires these on behalf of the Treasury when vesting orders are made.
- (14) It acts as general financial adviser to the Treasury. ("A Chancellor of the Exchequer has behind him what I believe to be the finest expert opinion in financial matters, in Treasury matters, in the whole world." ¹)
- (15) It conducts "open market operations," increasing or decreasing bankers' balances and so increasing or decreasing the basis of credit, as explained in chapter xv.

From this can be seen the enormous scope of business and influence radiating from the great building in Threadneedle Street. In many respects the Bank of England, as financial adviser to the Government, is a 'Silent Service' and shuns publicity. Although independent of State and Parliament, it works in such close collaboration with the Treasury that the relationship between the two has been likened to that between Tweedledum and Tweedledee (except that they have not "agreed to have a battle"). The nation's financial policy is ultimately decided by the House of Commons, which controls the Treasury. The Bank of England advises the Treasury, but is ultimately the servant of the Treasury, and the joint-stock banks carry out the instructions of the Bank of England. Throughout its history the Bank has had to run the gauntlet of criticism. So have Parliament and the Treasury and the whole financial system. "The dogs bark, but the caravan passes on."

¹ Mr Winston Churchill, M.P., in the House of Commons, May 4, 1925.

As Mr Montagu Norman said, at the *Economist* Centenary Luncheon on September 8, 1943:

"As a matter of fact, the Bank welcomes informed and constructive advice. . . . We may not in the City discuss our affairs in public, but it is not to be inferred that we are self-satisfied or deaf to criticism or advice."

When Britain left the Gold Standard she gradually built up the Sterling Area—*i.e.*, the countries (Dominions, Colonies, Irak, Egypt, Eire, etc.) whose Exchange Control is consistent with ours—which Mr Churchill once described as "the sterling convoy": "It is the power and virtue of Britain which guards the sterling convoy and brings the good ships safely across the ocean into port."¹ And the Bank of England is in a way the escort-flagship of the convoy. Speaking in the House of Commons on April 25, 1932, the Right Hon. Walter Elliot, M.P. (then Financial Secretary to the Treasury), said:

"The management of our note issue has been under the expert control of the Court of the Bank of England, and so great is the confidence engendered throughout the whole world that country after country has joined what Mr Churchill has called 'the sterling convoy'—that is to say, has followed the pilot-light of these expert managers. . . . We are piloting a quarter of the world. This convoy . . . carries in its holds, not merely treasure, but a great portion of the hopes of Western civilization."

If, after the Second World War, agreement on an international currency should prove to be impossible, Britain's obvious course would be to strengthen and enlarge the sterling convoy.

Founded in 1694 as a desperate effort to raise money for King William III in his wars in Flanders, the Bank of England has become the world's best-known bank, with a prestige for integrity, skill, and prudence that has made the phrase "as safe as the Bank of England" into a household saying throughout the world, and when it celebrates its 250th birthday it can well be proud to be "an institution which has existed under the reigns of twelve sovereigns and for a period which covers more than one quarter of the time since William the Conqueror landed at Hastings."²

¹ In the House of Commons, April 21, 1932.

² B. Ellinger, *The City* (King, 1940).

CHAPTER XIX

ALL SORTS AND CONDITIONS OF MEN

The web of our life is of a mingled yarn, good and ill together :
our virtues would be proud if our faults whipped them not ;
and our crimes would despair if they were not cherished by
our virtues.

SHAKESPEARE, *All's Well That Ends Well*

Thirty years ago, when some one demanded "more realism in the theatre," G. K. Chesterton replied that a play showing a bank clerk posting a ledger would be 'realism' but would be deadly dull 'theatre.' And the story of the life of any average one of the innumerable clerks of the Bank would be equally dull, an unheroic epic of quill-driving, a record of useful work patiently done. Secluded in their offices behind the inscrutable outer walls of Soane's building, it might be said of them as truly as it was said of the villagers of Stoke Poges :

Far from the madding crowd's ignoble strife, . . .
They kept the noiseless tenor of their way.

But there have been enough exceptions to the general rule to make a story worth telling. Strange happenings, eccentric characters, and quaint regulations occur throughout the history of the Bank. Even the death penalty without benefit of clergy imposed in 1697 for the forgery of Bank notes and bills did not deprive the crime of "forging and uttering" of its fascination for some, nor did its abolition in 1832 greatly affect the number of those who practise the gentle art of imitation. In the twenty years between 1797 and 1817 313 men and women were sentenced to death for forgery, while in the following twelve years (1817-29) another 305 persons earned a like fate. But this was overdoing it; the gallows were becoming too greedy. Speaking in the House of Commons on April 8, 1818, General Thornton said :

"So great has been the sacrifice of human life in consequence of convictions for forgery, that several persons against whom there was sufficient evidence to convict capitally had been suffered to escape with impunity."

A paper called *The Black Dwarf* referred to the Directors as "grand purveyors to the gibbet" and "priests of the modern Moloch's blood-stained altars" and such-like rough language against capital punishment more suited to a Hyde Park orator's outbursts against capital monopoly to-day.

The first of the Bank's clerks to forfeit his life for forgery was William Maynee, who was publicly hanged at Tyburn in 1731. He had forged receipts and mulcted the Bank in a loss of £4420, and although he admitted his guilt and pleaded for "the mercy of transportation to Jamaica," he was tried and sentenced to death. His plea for the opportunity of foreign travel was rejected and he was reckoned among the transgressors. Sent to the gallows, "At the place of execution he begged pardon of the Court of Directors, prayed for the prosperity of the Bank, and died very penitent."

The journey to Tyburn must have afforded a rather pitiful spectacle, and Newgate Gaol within the City precincts was afterwards chosen as the place of execution—a change for the worse, in the opinion of Dr Johnson:

"They object that the old method drew together a number of spectators. Sir, executions are intended to draw spectators. If they do not draw spectators they don't answer their purpose. The old method was most satisfactory to all parties; the public was gratified by a procession; the criminal was supported by it. Why is all this to be swept away?"

In another case in 1722, a medical student named George Nicholas, who had acquired some knowledge of chemicals, "altered and erased" a Bank note, thus making it possible to change the original figure of £11 to £80. But he was arrested and found guilty, and no chemical could alter that fact. He was sentenced to death, and, as Dr Johnson remarked, "Depend upon it, Sir, when a man knows he is to be hanged in a fortnight, it concentrates his mind wonderfully." Before he was sentenced he appealed for mercy:

"Let me be sent abroad on the most hazardous attempts, to assist in any of His Majesty's plantations against the incursion of destroying savages: Spare me from this ignominious death for the sake of my dear parents and worthy relations."

And mercy seasoned justice; he escaped the gallows and obtained the fulfilment of his petition: transportation for life. One may hope that he did not live to wish he had been hanged.

Another clerk who was hanged for forging a transfer of Consols awakened pity in the heart of a journalist of flowery imagination, who contrasted the prisoner's situation in the condemned cell with his former position at the Bank, where he had been "sitting in the palace of plenty, the temple of wealth, amid the produce of the mines of Mexico."

Escape from the gallows by a last-minute inspiration was the luck of a clerk who had enriched himself by adding the figure '1' to the stock account of Sir Robert Peel, thereby altering £4795 15s. into £14,795 15s. He transferred the illusory £10,000 into a new account under a false name on which he drew. But the crime was traced back to him, he was arrested and tried to commit suicide. The only substantial evidence of his guilt was his own handwriting, and the prosecution relied almost entirely on the evidence of a handwriting expert. This evidence given on oath appeared to inculcate the prisoner beyond hope, but as the witness was leaving the box the prisoner (who was on crutches) whispered to his counsel to put one more question. Counsel put it: "Do you believe the New Testament to be a revelation from God?" The witness hesitated and appeared not to know what to say; proof was brought to show that he was an atheist. The shock of hearing evidence on oath from an atheist, added to the sight of the prisoner on crutches, made the jury bring in a verdict of "Not guilty." The prisoner was released, spent his money in riotous living, and died in the utmost poverty.

One extraordinary case must be mentioned in which the delinquent's neck was saved by "the Law's delay." In 1721 a Jew named Moses Waag, acting as stockbroker for Mary Stanley, transferred her stock into his own name. He then went abroad and took refuge in Frankfurt-on-Main, where he was arrested six months later. An extradition order was sought, and the Frankfurt magistrates gave permission for Waag to be extradited under escort. But the Jews of Frankfurt in those days were under the protection of the Emperor of the Holy Roman Empire, and the

consent of that monarch had to be obtained from Vienna. The Emperor having made no order by September 1722, the Bank insisted on a prosecution to be started against Waag at Frankfurt. But this too could not be done without the Emperor's consent, and nearly a year elapsed before such consent was given; even then it permitted only the taking of evidence, while the case itself was referred to the Senate of Tübingen University, near Stuttgart. The learned Doctors found Waag "Not guilty," and awarded him 8000 florins damages. The Bank then sent special witnesses to Frankfurt and the case was again referred to Tübingen. From there an appeal lay to the Aulic Council of the Holy Roman Empire at Vienna, but the Aulic Council was well aware that to find Waag guilty would lead to his being executed and upset the Frankfurt Jews, so it reserved its decision *sine die*. As it had not made up its mind by June 1725, the Bank abandoned the case. Waag was not released from prison on that account, and after spending thirteen unlucky years in gaol, during which time he became convinced of the truths of Christianity, he was set free. But no sooner was he free than he was bitten by the demon of litigation and commenced an action against the Bank, claiming damages for false imprisonment. He had, however, forgotten that the matter of The Bank v. Waag was still before the Aulic Council, in which case he would require the consent of that august body before starting Waag v. The Bank; and, this application being refused, he abandoned his suit. But he had at least saved his neck.

And now to turn from the forgers to the steady plodders. Abraham Newland, one of the most famous Chief Cashiers in the history of the Bank, held that high office for thirty years in the days of Pitt—namely, from 1778 to 1807. A half-length painting of his portly figure by George Romney hangs at the Bank. In those days the Chief Cashier lived in the rooms over the front gate, and this no doubt suited the confirmed bachelor Abraham Newland perfectly. Although he had a country residence amid the rustic charms of Highbury and used to drive out there in the summer to take tea, he slept at the Bank every night for thirty years, thus confirming Dr Johnson's opinion that "when a man

is tired of London he is tired of life." He died worth £200,000, which he left to his housekeeper for life. "The progress of a horse in a mill is but a faint type of such an existence," as some one said of Abraham Newland's biography.

The mention of Dr Johnson recalls the name of John Payne, a man of diminutive stature, who was Chief Accountant from 1780 to 1785. Payne was acquainted with Dr Johnson at the Ivy Lane Club (the "Nag's Head," Newgate Street), and had the honour of going with him into the country to visit a friend. Johnson proposed to run a race with little John Payne, but before he had gone half the distance "Johnson caught his little adversary up in his arm, placed him upon the arm of a tree which was near, and continued running as if he had a hard match."

Thomas Rippon, who was Chief Cashier from 1829 to 1835, was another lover of Threadneedle Street, for he

always declared that he felt himself nowhere so happy as in his business, and though for upwards of fifty years in the Bank he never solicited but one holyday, which being granted he left London with the intention of being absent a fortnight; but the ennui of an idle life and the want of his usual occupation so preyed upon his spirits that he actually returned to the Bank at the expiration of three days, stating that green fields and country scenery had no charm for him.

Here, too, was a case of a man casting his bread upon the waters, for he left £60,000. His love of town before country recalls Charles Lamb's searchings of heart: "What have I gained by health?—intolerable dulness. What by early hours and moderate meals?—a total blank."

Some 'hard cases' were brought to the notice of the Court from time to time. In 1816 George Dawson was arrested and imprisoned for debt, and he attributed his poverty to the many illnesses of his wife. As she had given birth to thirty-two children—eleven twins, three triplets, and one single specimen—and of the thirty-two offspring twenty-nine had already been buried, the cause of his poverty was rather obvious. The Court bent an ear to his petition.

Clerks whose duty it was to present bills or collect payments sometimes met with a rough reception. In 1721 one of such

clerks complained that he had been "assaulted and beaten by Mr William Oxford of the Inner Temple when he demanded of him the payment of a bill for £100." Mr Oxford was asked to explain his conduct, and replied that he had been "treated in so unaccountably saucy a manner by this fellow" (the clerk). Reflecting that there might be much to be said for both sides, the Court decided to take no action in the matter.

In the days of hard drinking the flowing bowl was a more frequent cause of complaint. In 1747 a clerk was suspended for coming to the Bank "disordered with liquor," and two clerks were dismissed in 1749 for being guilty of "rioting and drunkenness" outside the Bank. But of more serious crimes the history of the Bank's staff is singularly free. No clerk has actually murdered another, although on one occasion when two clerks quarrelled one hit the other over the head with a chair and laid him out, so that for days his life was despaired of. Another was reprimanded for offering to fight his Principal. But these are rare instances in the lives of thousands of clerks.

In Victorian times smoking in the Bank was frowned upon, and we find wine, smoke, and song taking the place of wine, woman, and song in the depravity tripos: "a smoking, singing, public-house man," "indifferent, careless, and although he has not been seen in a state of intoxication, his habits are evidently those of a smoker and drinker." Dog-fights and badger-baitings were also among the attractions of Vanity Fair in 1828, when a porter (who was suspected of having lost a bag of silver) was described to the Court as "in the habit of attending dog-fights and badger-baitings," further allegations being that "he continually sold both foxes and badgers," and failed to support his wife "with money sufficient for the wants of the family."

'Going sick' for the purpose of doing some gardening or attending a sporting event was doubtless 'tried on' a century or so ago. Human nature in that respect does not change. But 'going sick' for more than a month without proof of having been sick at all was made impossible in 1817 by a rule of the Court that when more than a month's leave is taken a medical certificate must be produced. Some clerks took their duties lightly. Of

one, bearing the excellent Jacobite name of Charles Stuart, it is recorded that he was "much employed in business of his own, is very little in the House, and has not done the duty of a Clerk for many years." It appears that he put in about three hours' work a day. In 1807 Robert Durell 'went sick' and was found by a visiting official "transacting business behind his counter as a haberdasher."

"Things have come to a pretty pass," said Lord Melbourne on hearing an Evangelical sermon, "when religion is allowed to invade the sphere of private life." Although the fate of the Bank was for a long time bound up with that of the Protestant Succession, only once has a clerk been dismissed for his religious opinions—and that was shortly after Bonnie Prince Charlie's march to Derby had sent a shudder of apprehension through the ranks of the Whigs. Fear and suspicion go together, and some interfering busybody thought he spied a Jacobite fifth-columnist on the staff—to wit, Thomas Macdonnell—and imparted his fears to the Directors. Macdonnell was summoned before the Court, and admitted he was a Papist. In those days 'Papist' meant 'Jacobite,' and 'Jacobite' meant 'enemy of the Bank'; Macdonnell was dismissed. Before Wellington's Catholic Emancipation Act of 1829 men known to be Roman Catholics were not eligible for the staff, but no religious tests were instituted. In more recent times Father Pollen, S.J. (before he became a priest, of course), was a clerk at the Bank; so too was E. S. Purcell, the first biographer of Cardinal Manning (whose father was a Governor of the Bank). Religion entered more visibly into Bank life on certain Sunday mornings in the year 1809, when the preparation of £1 and £2 notes kept the staff working overtime on Sundays from seven to two. The Vicar of the neighbouring church, St Bartholomew-by-the-Exchange, was invited to hold religious services inside the Bank itself for the benefit of the staff on duty.

In the early days of Threadneedle Street not only the Chief Cashier and Chief Accountant but some of the gate-porters lived at the Bank, and it is probable that some of their children could boast of having been "born at the Bank of England." Two resident clerks were married in the Bank—one in 1753 and the other

in 1754—in both cases by Special Licence of the Archbishop of Canterbury. The year 1753 was the year of the Clandestine Marriages Act, which forbade the clergy from solemnizing marriages except in churches or public chapels without the Archbishop's Special Licence, and the penalty for infringing this law was "transportation to the Americas." Since the church of St Christopher-le-Stocks was only fifty yards away, one wonders why these clerks chose to be married "on the premises."

In 1798 the Bank had a giant on its staff, William Jenkins, 6 feet 7½ inches tall. When he died his relatives feared that the body-snatchers would get hold of his body, having heard that "some surgeons" had offered 200 guineas for it. They were therefore allowed to bury the body in the Bank garden, which six years before had been the churchyard of St Christopher-le-Stocks.¹

Mention must be made of the most resplendent personages at the Bank—namely, the beadles, or gate-porters, as they are officially termed. Three years after the Bank was founded the Directors decided that the gate-porters should have "a crimson gowne lined with orange, and a large bamboo cane with a silver head." The splendid gown worn by the head gate-porters to-day is based on that old model, but the cocked hat (worn broadside on) was selected about the year 1800. The large bamboo cane with the silver head is only carried on Court days while the Court is sitting, one beadle standing guard at the front gate and another at the Lothbury gate. But even a uniformed official at the Lothbury gate did not prevent a woman from stealing the Porter's keys from his lodge in the year 1819. She may have practised all the arts and wiles of the Widow Wadman over Uncle Toby in the sentry-box to get hold of the keys, but the evidence given to the Court was that she had a mania for stealing keys, had stolen four thousand keys, and had at last won the Blue Riband of key-stealing by stealing the Bank of England's keys.

In 1797 an official of less splendour than the bright-robed

¹ St Christopher's was demolished in 1781. Its last Rector was a splendid pluralist, being also Rector of Wormley, near Broxbourne (Herts), and Prebendary of three cathedrals too—St Paul's, Salisbury, and Rochester—residing at Wormley all the time. He chose a good motto for his bookplate: "The ungodly borroweth, and payeth not again" (Psalm xxxvii, 21).

beadle was employed in "keeping the front of the Bank in Threadneedle Street clear from Jew boys and persons selling fruit, etc."

The livery of the Bank's messengers—heliotrope-pink swallow-tail coats, scarlet waistcoats, silver buttons, black trousers—is traditionally supposed to have been that of the servants of the first Governor, Sir John Houblon, in 1694.

Of the porters and watchmen a word must also be said. In 1736 the watchmen were ordered to carry a "half-pike" when on duty and to ring the Great Bell "upon any noise of fire or calamitous accident." Patience under provocation was evidently expected by the Directors, as the porters were to be reported for any "prophane cursing or swearing." But these men showed their mettle when the Royal Exchange was burnt down during a bitterly cold winter night. They worked the Bank fire-engine until their sodden clothes froze stiff with ice. One man had to have his frozen clothes cut off him, and his death a few years later was attributed to his sufferings on that nightmare night of ice and flame.

A few other "strange happenings" must be treated briefly. There is the story of a workman in the vaults who discovered a disused sewer leading to Dowgate Hill. He invited the Directors to meet him at midnight in the bullion vault, kept the tryst, and bobbed up behind the bullion boxes at the appointed time, to the consternation and alarm of the sceptical Directors.

Charlie Price, who wore a patch over one eye and was known as "Old Patch," was one of the most daring forgers. He lived a sort of Jekyll-and-Hyde existence, and had the brazen impudence to cash his own forged notes at the desk above which hung a notice offering a reward for his arrest. When found out he committed suicide and was buried at the crossroads at midnight, as was the custom in the good old days.

A curious case of hoarding came to light in 1843 when a man asked the Bank to cash a £20 note which had been issued 125 years before. As Bank notes are "legal tender for all time" the teller paid out £20 in gold forthwith, but pointed out that if the first holder had at once paid the £20 into a deposit account and his

descendants had let it accumulate at 5 per cent. interest for 125 years it would have increased into about £8900.

The "Bank Nun" must also be mentioned. In 1811 a clerk who had set up a household with his sister on a scale far beyond his means, fell into temptation and uttered a forged bill. He was caught, sentenced, and hanged, without his devoted sister knowing anything of his fate. When she learned the true facts the shock unhinged her mind. Dressed in black with a crêpe hood, she anxiously inquired for her brother at the Bank every day for twenty-five years, refusing to believe that he was dead. Her garb, her silence, and her daily discipline of inquiry gained for her the nickname of the "Bank Nun."

An eccentric of a rather different nature was a man who called one day to see the Governor when Kenneth Grahame, the well-known author, was Secretary. The Governor was out at the time, and Grahame, not knowing that he had to deal with a dangerous man, went to interview him in the waiting-room. The visitor became excited, drew a pistol, and fired two shots at Grahame, who luckily escaped unhurt. He was then chased into another room and eventually knocked flat by a jet from the fire-hose. *Punch* wondered whether Grahame appreciated the saying "as safe as the Bank of England." It was shortly after this incident that Grahame retired, to win greater fame as the author of *The Wind in the Willows* (written, though, before he retired).

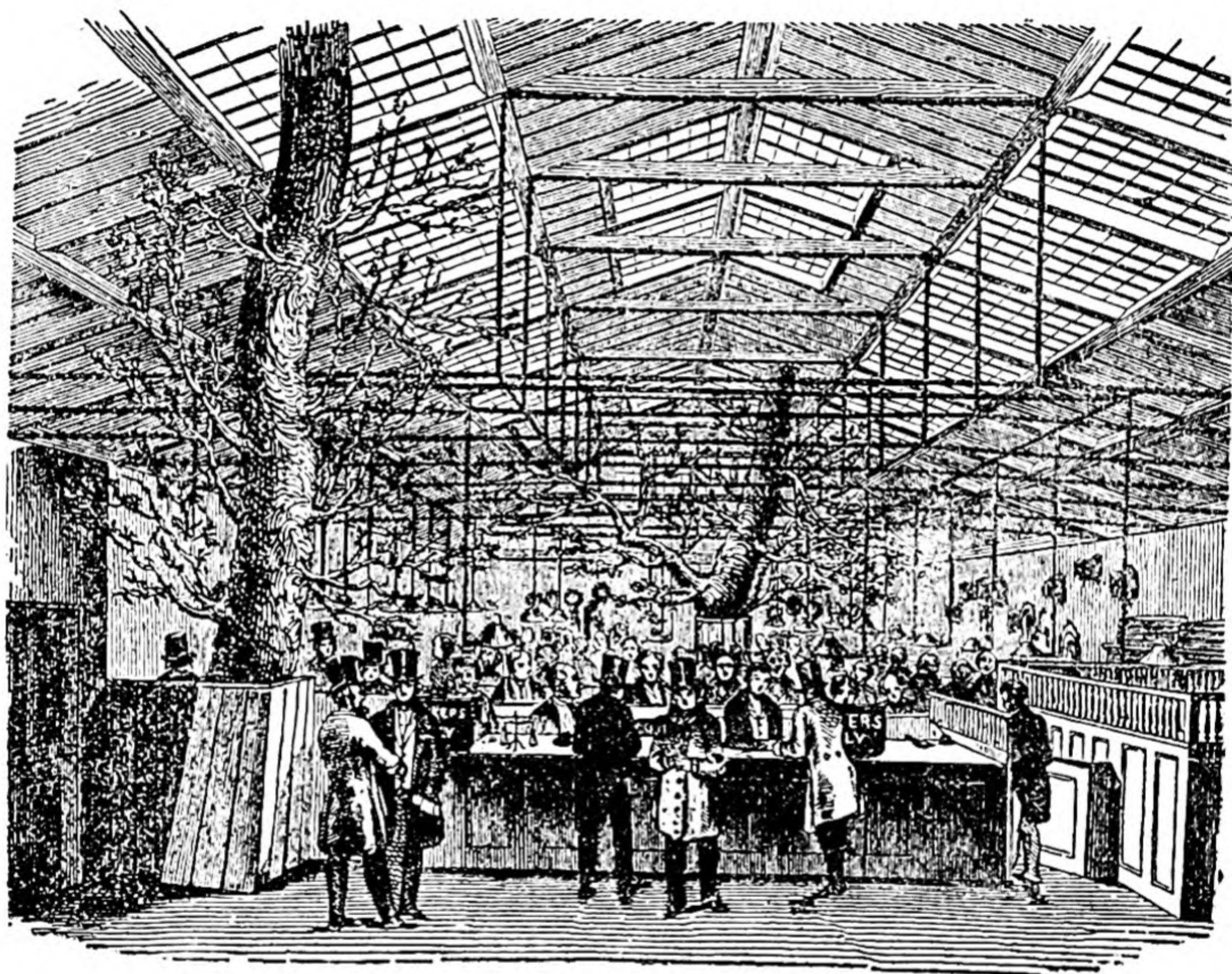
In April 1917 the Bank took possession of St Luke's Hospital for Lunatics, Old Street, and converted it into a huge printing works; but the Bank's connexion with St Luke's had already been of long duration, for on August 23, 1809, an Order of the Court directed:

St Luke's Hospital. £21 to be subscribed annually, entitling the Bank to send as many of the Servants, without limitation, as may unfortunately be poor and mad.

A strange case of *rus in urbe* was seen in the summer of 1849 when Soane was rebuilding the Private Drawing Office. Temporary accommodation was provided by roofing over the Bank garden

and using this as a Drawing Office. The lower branches of the lime-trees were in full leaf inside the office, the upper branches outside the glass roof: the whole thing looking like a bank in a greenhouse.

In the early days of the Bank, when the offices were open to the public from nine to twelve and two to five, clerks had to be



THE BANK IN A GARDEN

From an engraving in the *Illustrated London News*, April 7, 1849

there at eight, the tellers even at seven. Appearance books were first laid out for signature in 1704, but there seem to have been ways of getting round the burden of punctuality, for it is told of one clerk who lived in Friday Street, Cheapside, that he walked in slippers and dressing-gown to the Bank, signed the book, and returned to shave and have breakfast before actually commencing work. Another clerk, "Hungry Tim," always wore his top-hat, even in the office. He brought poultry to the Drawing Office,

but while he was at lunch some cad let the bird loose and on his return Tim had to chase it out of his Principal's sanctum.

There is a story told of an old lady who called at the Bank to surrender a foreign Bond and who was asked whether the Bond was for conversion or redemption. She replied that she didn't know, but thought she had come to the Bank of England, not the Church of England. Another story tells of a security document sent to a legatee. A card was enclosed which was to be signed and returned to the Bank as an acknowledgment of receipt. The happy and pious legatee returned the card after inscribing on it, "To God all things are possible." But she forgot to add a postage stamp. The Post Office added the comment "Not this time," and claimed a surcharge. A trustee who brought a Deed of Transfer which was defective in certain particulars was asked to give "date of execution and proof of death." Wincing at the insinuation, he retorted, "What more do you want? A bit of the rope?" A stockholder returned from abroad and wrote, "When I left this country in 1933 I had about 33 lb. War Loan in your Bank." The Bank's House Magazine commented: "There being no truth in the suggestion that for every correspondent who gets a prompt reply a cwt., we are pleased to an oz. that the writer was not kept long in sus-d. as to the fate of the stock." Another stockholder wrote plaintively, "My address has been condemned as a result of enemy action. The same applies to my mother." In 1937 a stockholder asked to be described on his account as "Gentleman, Republican, Warrant Officer R.N., retired." Lastly, a letter has been received addressed to Messrs The Bank of England, The Embankment, London. But there is actually another Bank of England—the Bank of England, England, Arkansas, U.S.A. (twenty miles south-east of Little Rock, the State capital), which, to judge by a photograph, is an imposing corner building and well patronized by motorists.

CHAPTER XX

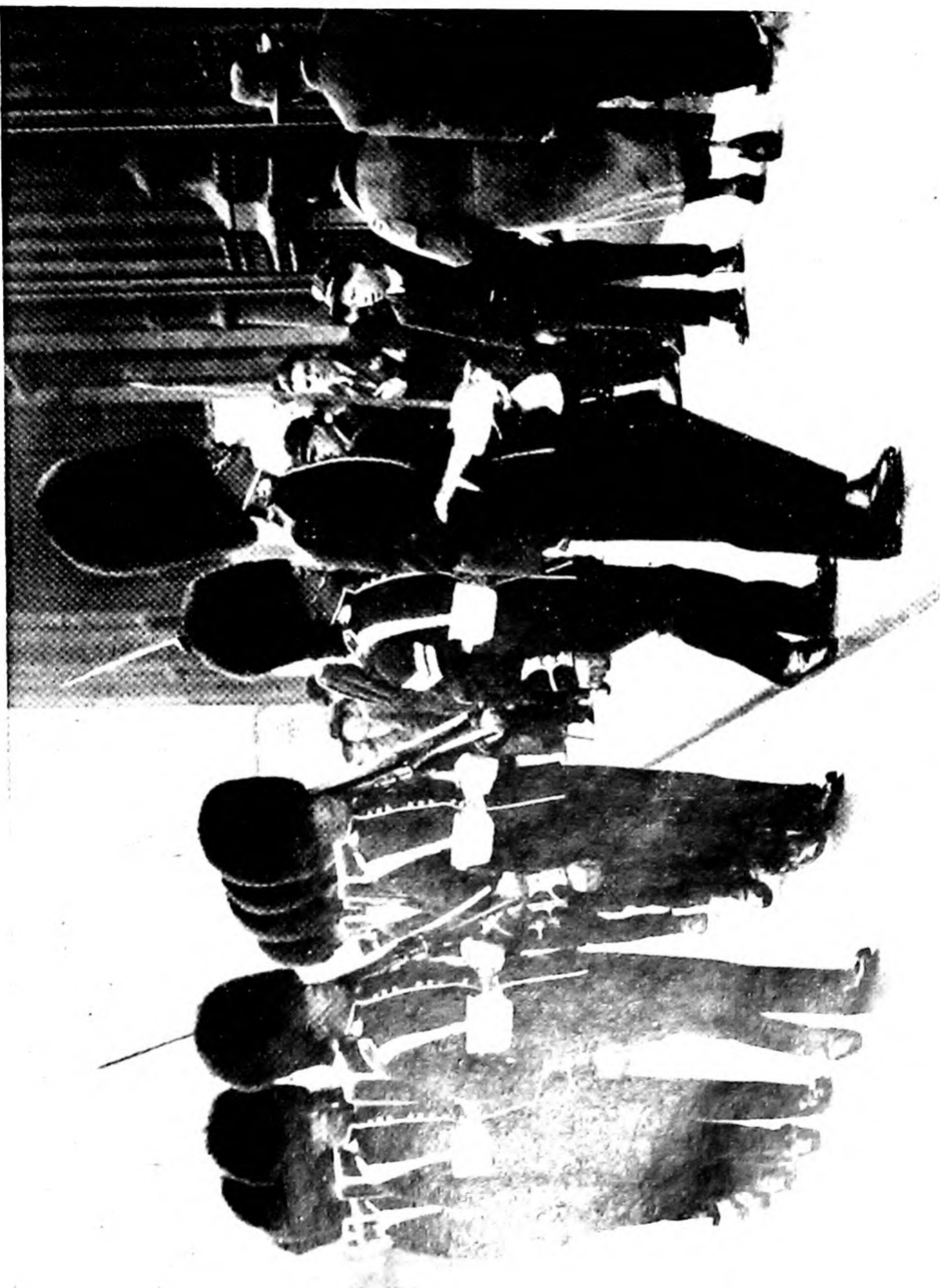
THE OLD BUILDINGS

Huge halls, long galleries, spacious chambers joined
By no quite lawful marriage of the arts,
Might shock a connoisseur; but when combined,
Formed a whole which, irregular in parts,
Yet left a grand impression on the mind,
At least on those whose eyes are in their hearts;
We gaze upon a giant for his stature,
Nor judge at first if all be true to nature.

LORD BYRON, *Don Juan*

After the grant of the Charter the Directors held their first Court on July 27, 1694, at the Mercers' Chapel, in Ironmonger Lane, Cheapside. The Mercers (originally traders in silk) were the leading Guild of the "Twelve Great Companies" of London. Their Hall stood on the site of the house in which Thomas Becket (St Thomas of Canterbury) had been born in 1118. That house was superseded by a hospital and chapel erected in 1190 to the memory of Becket (who died in 1170) by his sister and handed over to the Augustinian Friars. The Mercers' Company were the patrons of the hospital. That building disappeared in the Great Fire of 1666, after which Wren built a new Hall known as Mercers' Chapel. It was in that building that the Bank transacted its first business. Wren's entrance doorway was taken down in 1879 and re-erected as the entrance to the Town Hall at Swanage, Dorset, in 1882.

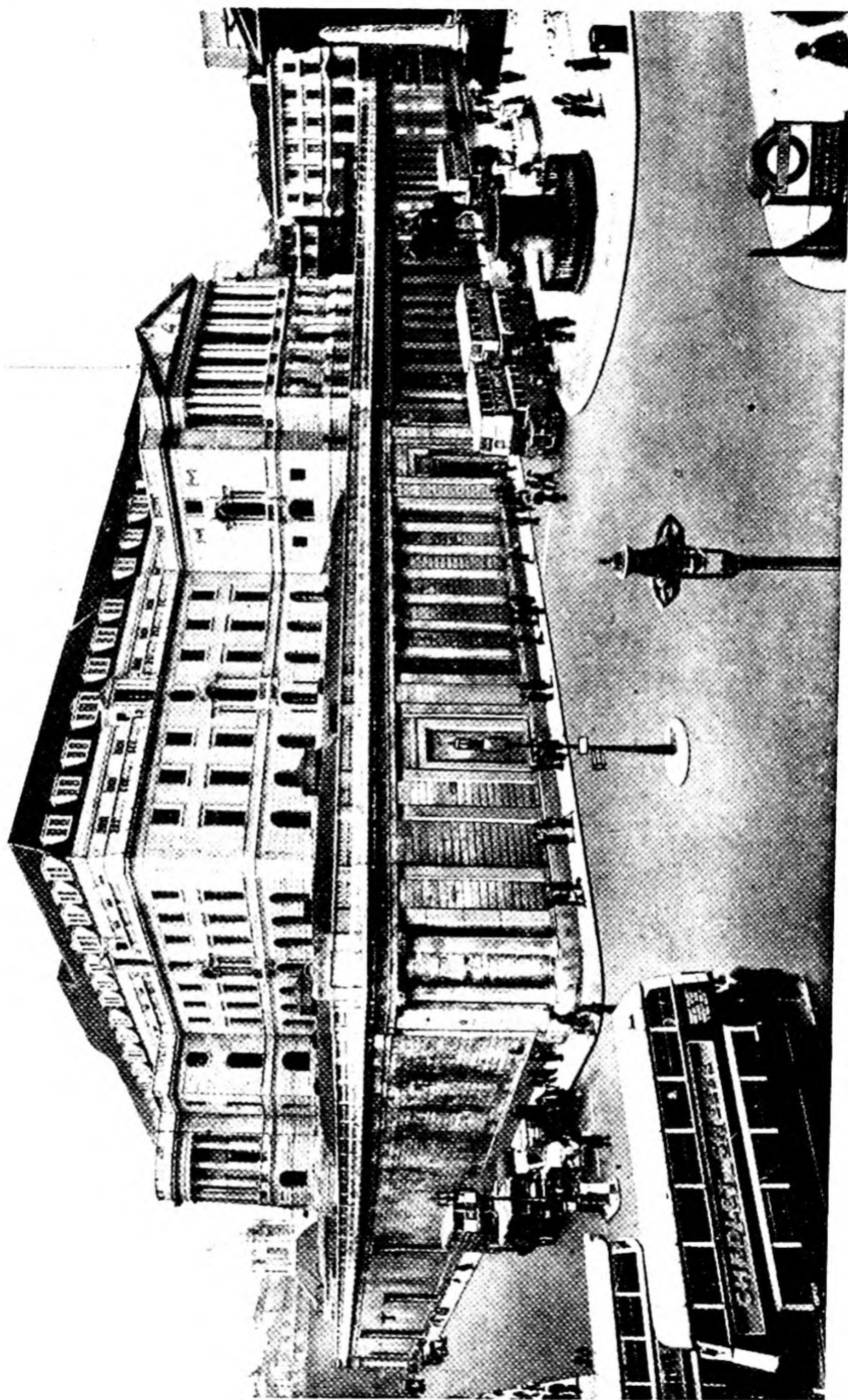
The Directors had never regarded the Mercers' Chapel as anything more than a temporary address, and soon began to seek premises more suitable for use as a Bank. After five months with the Mercers they moved their office to the Hall of the Grocers, another City Company. One of the Directors, Samuel Lethieulier, a descendant of an old Cologne family, was a "Grocer" and negotiated a lease of Grocers' Hall, in Cheapside, for eleven years from Christmas 1694 to Christmas 1705 (the year in which



THE BANK PIQUET

A piquet of the King's Guard arriving from Wellington Barracks to take over the nightly watch in peace-time.

Fox Photos



THE PRESENT THREADNEEDLE STREET FRONTAGE

Photo "The Times"

the original Charter was due to expire). These eleven years were destined to become forty before the Bank moved again.

The Grocers' Company grew out of the ancient "Guild of Pepperers," who dealt not only in pepper but all kinds of spices from the East, and the Grocers conducted business *en gros* or wholesale. The Grocers' Hall dated from 1427; the roof and woodwork were burnt in the Great Fire, and two years later the Great Parlour with the Court Room above were rebuilt. For this purpose the Grocers' Company had been obliged to borrow £5000 on their Hall. One of the terms of the lease to the Bank was that the Bank should take over this mortgage liability for the period of their tenancy. On December 29, 1694, the Bank left Mercers' Chapel and moved into Grocers' Hall. Prints show the Grocers' Hall to have been a two-storey building with an oriel window at one end and a belfry on the roof. Tapestry hangings were ordered for the "Entertaining Room," the front garden was planted with three dozen rose-trees, and carved figures of Britannia were set up on poles in the street outside. The lease expired in 1705 and was renewed for fourteen years rent-free on condition that the Bank cancelled the £5000 mortgage. Addison, writing in No. 3 of the *Spectator*, gives a little picture of the Bank in its one room at Grocers' Hall:

I looked into the great hall where the Bank is kept, and was not a little pleased to see the Directors, secretaries, and clerks . . . ranged in their several stations according to the parts they hold in that just and regular economy.

In 1724 the Directors took the first step which was to lead them to Threadneedle Street. For £15,000 they purchased a piece of land with ten houses on it, of which the largest was the mansion of the first Governor, Sir John Houblon, and which after his death in 1711 had been occupied by his widow. Behind the mansion was a large garden stretching eastwards towards Lothbury. This purchase put the Directors in a strong position when the question of renewing the lease of Grocers' Hall came up for discussion. Negotiations for the renewal finally broke down in 1731, and on January 20, 1732, the Bank decided to erect its own

premises, after pulling down the Houblon mansion and the houses fronting on Threadneedle Street.

George Sampson was elected as architect of the proposed new building. The foundation-stone was laid on August 3, 1732 (reign of George II). A church flanked the building at the Princes Street end: this was St Christopher-le-Stocks, in which most of the Houblons were buried. Sampson's new buildings were in a simple classical style: a stone gateway-house in front, a courtyard behind, then a Hall on the site of the mansion, and a group of buildings round a courtyard at the back on the garden site.

On June 5, 1734, the offices were transferred to Threadneedle Street, and the Bank was not to make use of Grocers' Hall again until the Great War of 1914-18. Princes Street in 1734 bent in at the point opposite Grocers' Hall and entered Lothbury opposite St Margaret's Church. The tongue of land in front of the Royal Exchange was covered with houses.

The Protestant Succession had been guaranteed by the Treaty of Utrecht in 1713 and was to be guaranteed again by the Treaty of Aix-la-Chapelle in 1748; and it was between these two dates—to wit, on January 1, 1735—that the Bank gave visible demonstration of its loyalty to the cause by placing a marble statue (by Henry Cheere) of "King William III in the Roman dress" in the new Pay Hall. It is recorded that on this auspicious occasion the "Under-Servants fired three volleys with small Arms," and an inscription referred with brazen flattery to his Majesty as "Founder of the Bank," the Court of Proprietors putting on record "the Great Respect they retain for the Memory of that Monarch." The names of Montagu, Godfrey, and Paterson were conspicuous by their absence.

It was not long before the work connected with the issue of Government loans during the wars of 1724-47 compelled the Directors to build new premises, and from 1721 to 1739, during the long premiership of Walpole, the Bank gradually acquired adjacent property for future extensions and laid-up financial resources for the building fund.

As soon as the Bank had acquired a sufficiently large and com-

fact site an architect was selected to design the new buildings; that architect was Robert Taylor (once a pupil of Cheere, the sculptor of the William III statue). In 1764 he was instructed to pull down the houses on the newly acquired land and erect new offices containing in particular a Court Room, a Rotunda, and four vaulted halls with a frontage to Threadneedle Street and Bartholomew Lane. The design of the façade of Taylor's new East Wing was based on that of Bramante's garden front in the Belvidere Gardens at Rome, and that of the Rotunda on the Pantheon at Rome. Robert Taylor's Court Room might be considered his masterpiece—a design so beautiful in line and refined classic ornament that it might have been the work of Robert Adam, whose style obviously influenced it. It remained part of the Soane scheme, and the present Court Room is a replica of it. No design has been found to surpass it, and it may claim to be the most exquisite board-room in the City. Three large Venetian windows looked into the garden. At each end was a vaulted aisle, or narthex, with an arcade of Corinthian columns in three pairs. Three 'Adam' fireplaces (the central one surmounted by an elaborate gilt clock) faced the three windows.

Taylor's East Wing was completed by 1775. On the pediment above the entrance to the Pay Hall the architect placed a figure of Britannia seated beside a sack of guineas which she appeared to be pouring out to an imaginary crowd below. (It is preserved in the Lothbury Court of the new building.) A new street, called Bank Street, was cut through the mass of houses on the tongue of land outside the Royal Exchange exactly opposite the main gates of the Bank, and so made a connexion with Cornhill.

The Gordon Riots in 1780 caused the Directors to fear that the tower of the adjoining church of St Christopher-le-Stocks might be used to bombard the roofs in any future rioting, and in 1781 they obtained powers from Parliament to acquire the church and pull it down to provide a site for a West Wing. In 1785 Robert Taylor designed the West Wing in the same style as his East Wing. The churchyard remained as the garden of the Bank until 1932.

The Rotunda erected by Taylor in the West Wing in 1763 was

also used as a Stock Exchange until 1801, when the New Stock Exchange in Capel Court was opened, but the Rotunda continued to be used by jobbers and brokers until 1838.

However, the chief architect of the old buildings, the man who almost rebuilt the Bank and gave it the appearance that was to be familiar to Londoners for the greater part of a century, was Sir John Soane. In 1788 Soane was appointed architect and surveyor to the Bank at the age of thirty-five, probably on the recommendation of William Pitt, and he held that appointment for forty-five years. The Bank of England became his *magnum opus*, the main work upon which he was engaged throughout the rest of his life. His first work between 1792 and 1795 was to complete the buildings at the Cheapside end of Princes Street begun by Taylor and to put a new dome (with caryatid figures in the lantern) over Taylor's Rotunda.¹

The Bank purchased the remaining sites up to the then line of Princes Street (which bent in to enter Lothbury opposite the church), and Soane designed the buildings to cover this site. In 1799 he also built a new Consols Office, one of the best interior designs, with twelve life-size caryatid figures in the lantern-light. (This and other features are preserved in the new building.) By 1805 the Bank had obtained power to straighten Princes Street, and Soane completed the new buildings up to the famous Tivoli Corner, and the Corner itself (a design based on the Lesser Temple of the Sibyl at Tivoli) was erected in 1806-7. During the construction of the Lothbury Courtyard a Roman tessellated pavement was unearthed and presented to the British Museum. The Lothbury Courtyard was designed in Soane's favourite Græco-Roman style, with Corinthian columns supporting an entablature carrying four statues representing Europe, Asia, Africa, and America. (These too are to be found in the new building.) The gateway of this courtyard was based on that of the triumphal arch of Constantine at Rome. The new Princes Street entrance-

¹ The Bank has been represented in ceramics. A blue-and-white dish of old Staffordshire earthenware (probably *circa* 1830) by Enoch Wood and Sons, of Burslem—one of a series entitled "London Views"—has as its centre panel a view of Soane's façade from Princes Street to St Bartholomew-Exchange, surrounded by an elaborate grape-and-grapevine border.

hall was designed with Doric columns (without bases) in imitation of the Propylæum at Athens, and a replica will be found on the third floor of the new building. Between 1814 and 1827 Soane rebuilt the East and West Wings with top lantern-lights behind a new screen wall (in style based on the Temple of Vesta at Tivoli) with eighteen courses of Portland stone divided horizontally. In 1828 the Soane buildings were complete. Opinions on his work differed: some praised, others blamed, among the latter being John Ruskin, who wrote in *The Stones of Venice*:

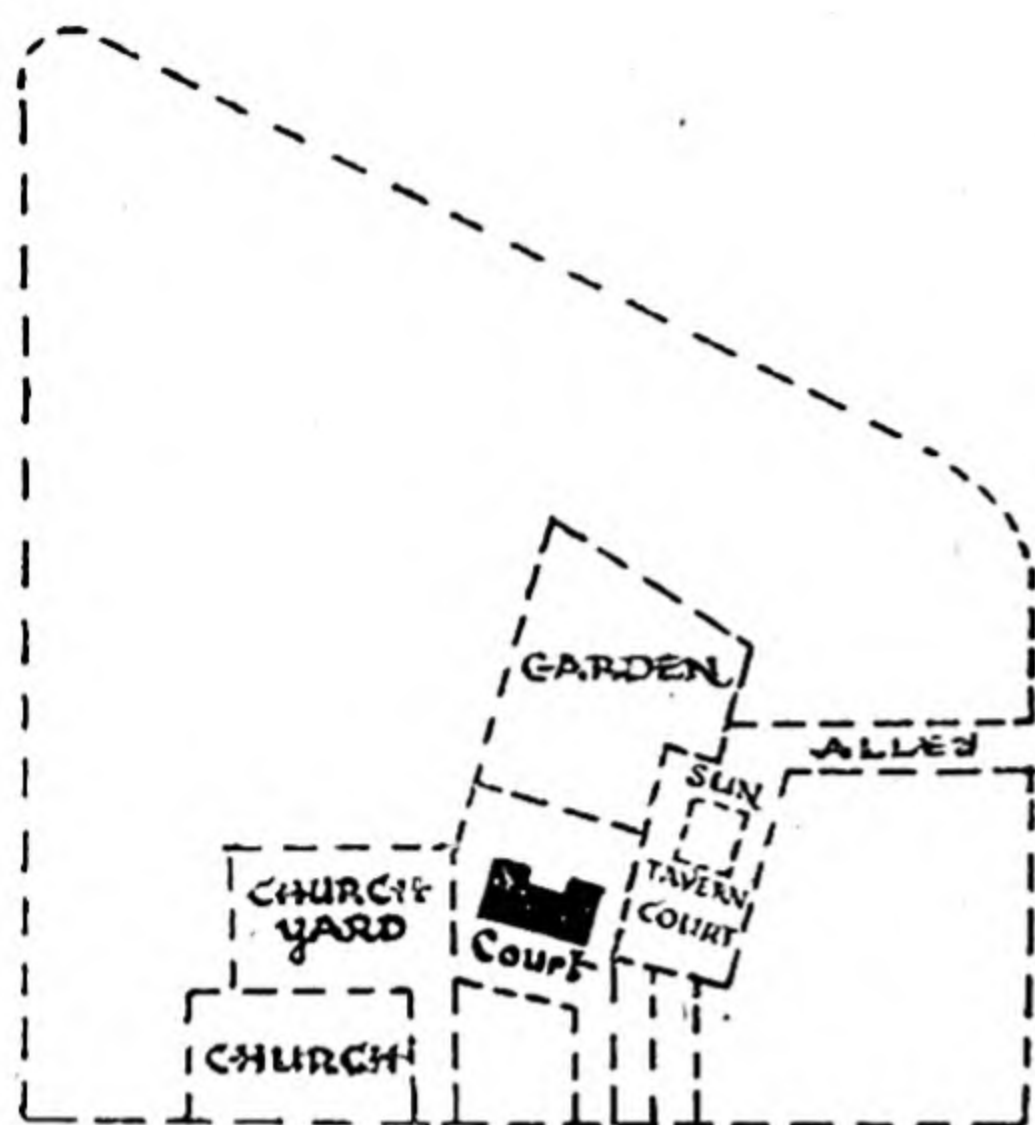
The lines of the Bank may, perhaps, be considered typical of accounts; but in general the walls, if left destitute of them, would have been as much fairer than the walls charged with them as a white sheet of paper is than the leaf of a ledger.

Soane died in 1837, and a hundred years after his death, when his masterpiece, the Bank of England, had disappeared, opinion was far more disposed to praise its excellence:

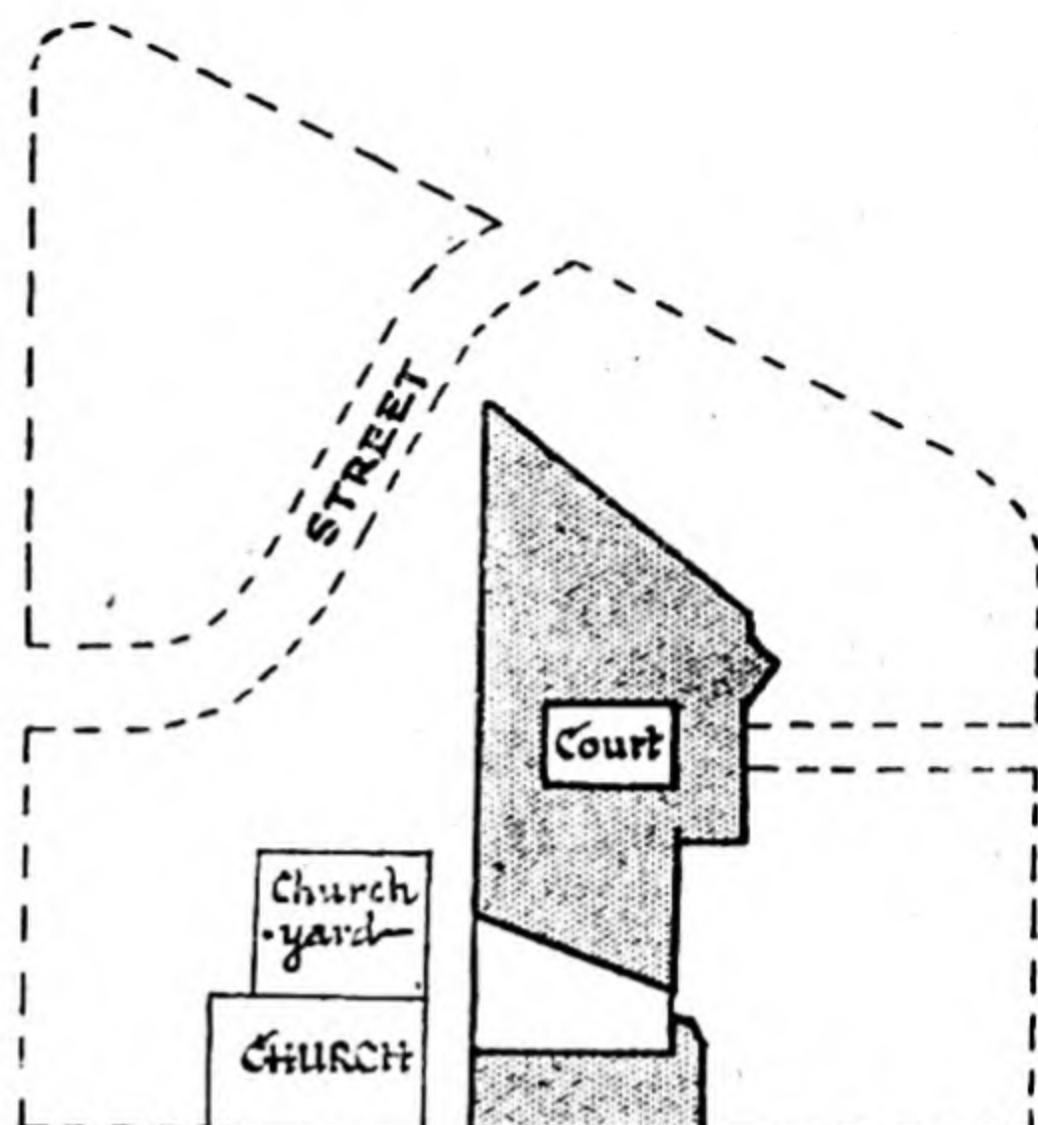
The amazing beauty of the old Bank has never been realized by the public, since few, inevitably, were privileged to enter it. . . . Soane contrived to give the interiors an organic coherence, and bounded the whole with his romantic and exquisite outer wall, whose 'blind' windows still give an air of remote, uncanny security. As Soane left it, the Bank was a fantastic palace, in many ways more akin to Byzantine work than to the idiomatic Græco-Roman of its period.¹

The outer screen wall (with its blind windows filled in and certain alterations made) is preserved as the boundary-wall of the new building. Taylor's beautiful Inner Treasury (sub-vault), Soane's caryatid lanterns (ground floor), Tivoli Corner (with alterations), Rotunda (ground floor), Princes Street vestibule (third floor) have been preserved in reproduction, and the general style of the ground-floor offices to the east of the main entrance repeats that of Soane's work.

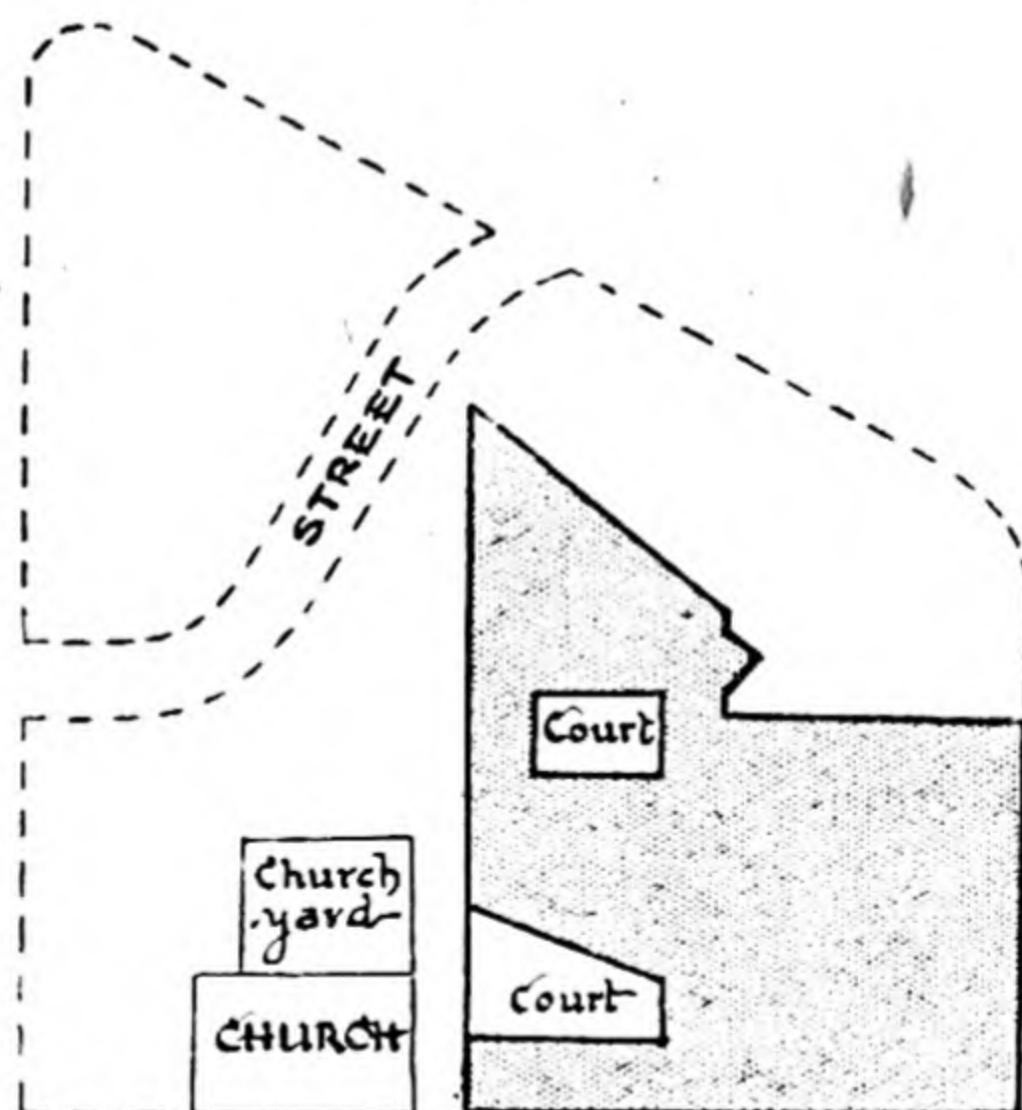
¹ *The Times*, January 20, 1937.



• 1694 •

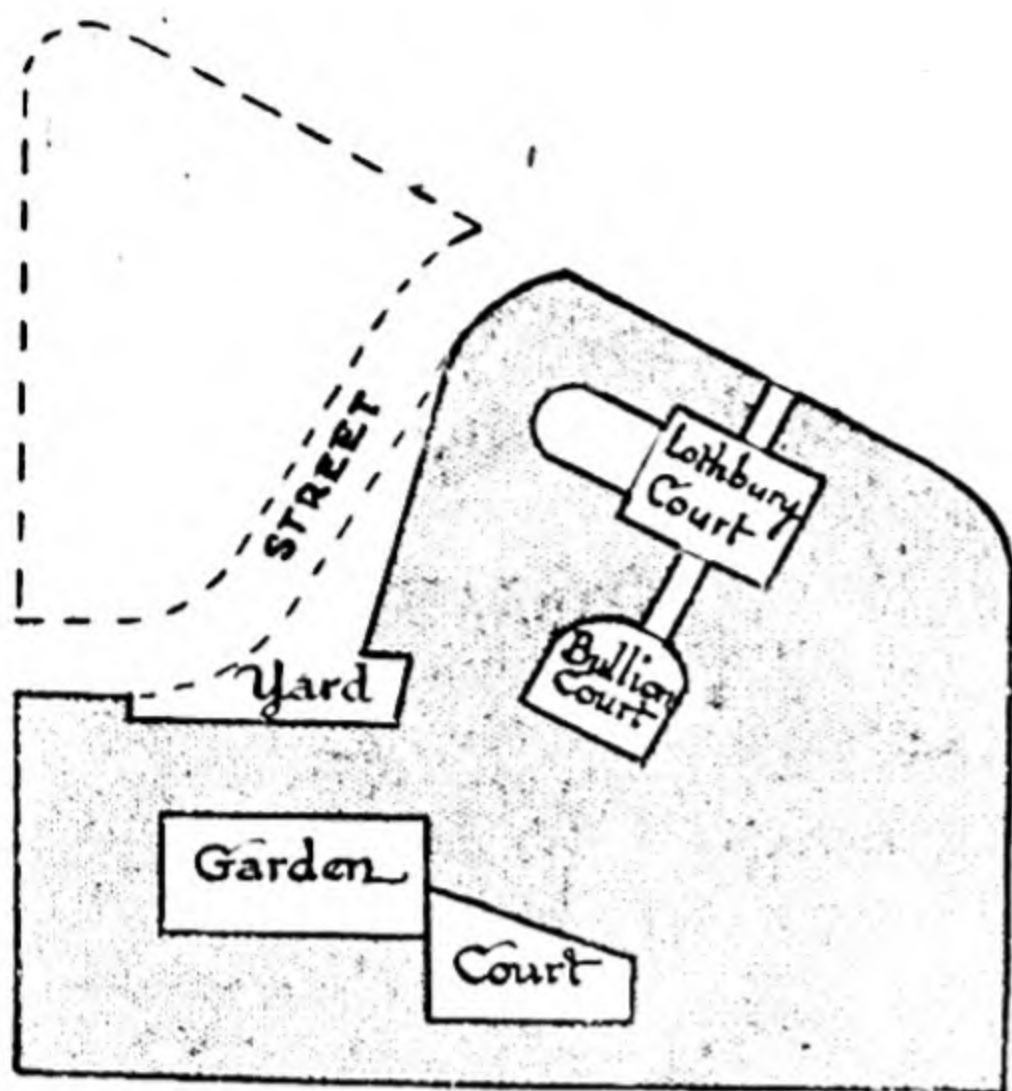


• 1734 •

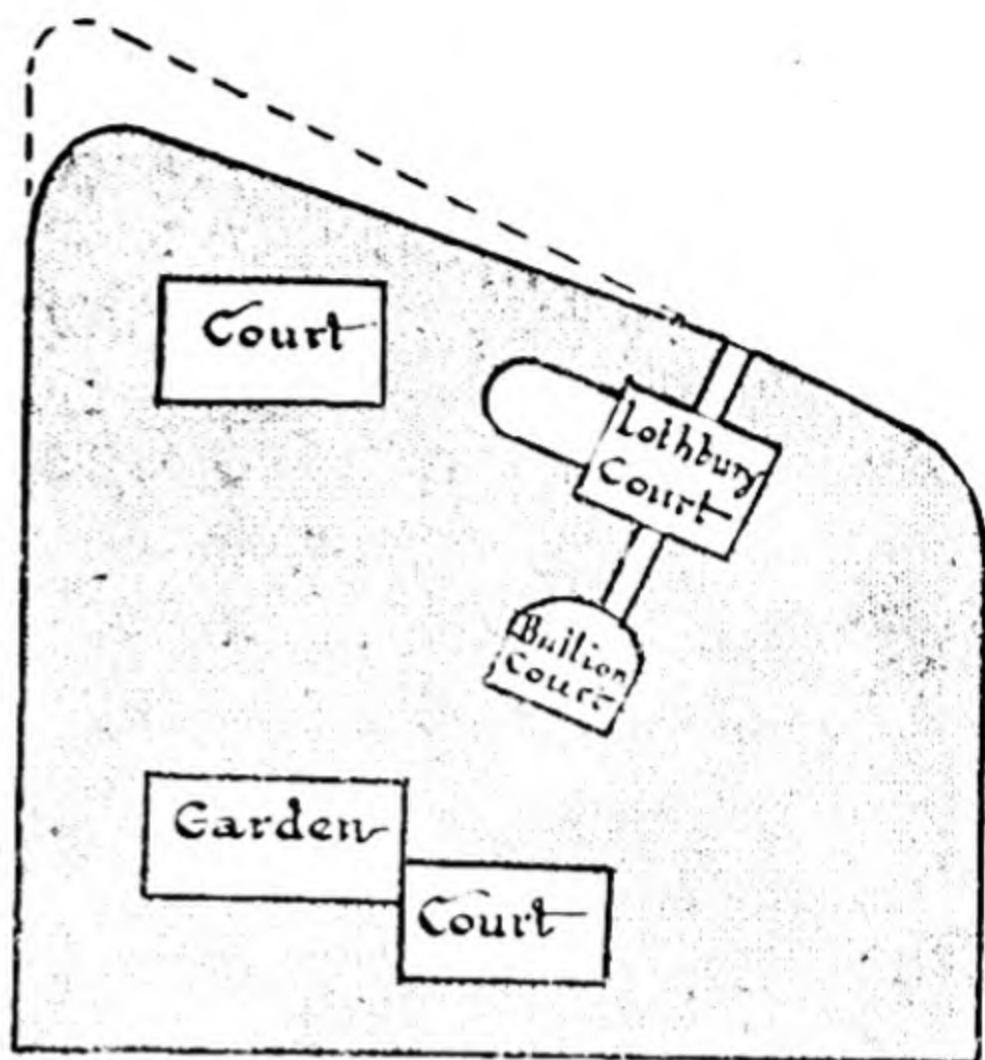


• 1770 •

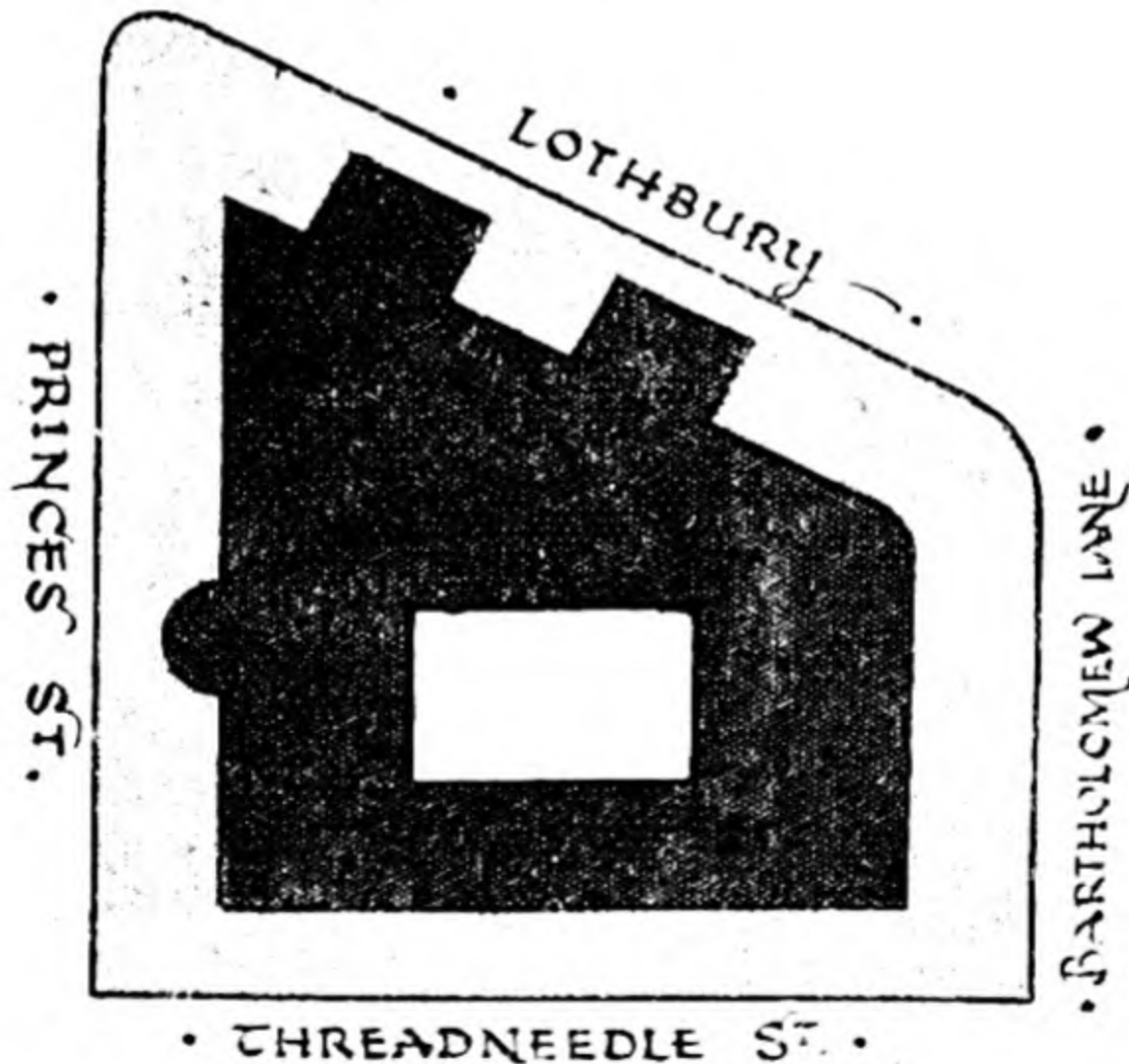
THE DEVELOPMENT OF THE SITE IN
The courts of the present buildings



• 1799 •



• 1836 •



• 1930 •

THREADNEEDLE STREET: 1694-1944
are covered by bomb-proof roofs.

CHAPTER XXI

THE NEW BUILDING

Architecture has its political uses. Public buildings being the ornament of a country, it establishes a nation, draws people and commerce, makes the people love their native land.

SIR CHRISTOPHER WREN, quoted in Stephen Wren's
Parentalia (1750)

In 1924 the Directors decided to rebuild the Bank, and an Act of Parliament was obtained so that the Bank Garden (formerly the graveyard of St Christopher-le-Stocks) might be built over. In 1925 the buildings of Sir John Soane began to disappear and the foundations of the new buildings of Sir Herbert Baker (architect) and Dr Oscar Faber (engineer) were begun. The greater part of the new structure was finished in 1930, but the date of actual completion was 1939. The new structure was the result of technical team work by which the various professions—design, construction, engineering, heating, lighting, etc.—were co-ordinated by weekly meetings on the site during the progress of the work.

Writing of this in *Country Life* on November 13, 1942, Dr Oscar Faber said:

The Bank of England, to mention only one job out of hundreds, was done in this way, and, looking back on it, I believe that it represents one of the best examples of good building and good structural engineering of our time.

The present buildings comprise a high central structure surrounded by a girdle of lower buildings within Soane's external wall (renovated and with the 'blind' windows filled in) and without any avoidable superstructure. These buildings cover the entire island site of three and a half acres and include a new Garden Court in the centre. The whole site lies within the parish of St Margaret Lothbury. The area forms a trapezium,

Princes Street being the long side and Bartholomew Lane the short side. The level drops several feet at the Lothbury end, enabling the architect to insert a mezzanine floor below the first floor on that side of the building.

The Exterior

There are seven storeys above ground and three under ground. The style is an adaptation of the Græco-Roman Corinthian style, and the material is ferro-concrete faced on the outside with Portland stone, both the style and the facing material having proved in the buildings of Wren and Soane to be perfectly suited to the London atmosphere. Soane's method of top-lighting the offices and banking halls inside the outer girdle is preserved.

At the Tivoli Corner the pathway is taken behind the columns and covered with a stone cupola open to the sky in the centre. This pathway was given by the Bank to the Corporation of London as trustees for the public in 1936, as recorded in the carved inscription inside the cupola.

Behind the Tivoli Corner is the dome of the Sub-Treasury (a Rotunda), and on it is the so-called Tivoli Temple, surmounted by a bronze figure of Ariel, by Charles Wheeler, R.A., symbolizing dynamic energy coursing over the whole world (or, as an American visitor remarked in 1937, "the pound sterling balancing on one foot").

The Lothbury wall has a niche containing a large statue of Sir John Soane (the work of Sir William Reid Dick, R.A.) and two gateways with bronze doors. The buttress figures under the porticoes above are by Charles Wheeler, R.A.

The main building lies about fifty feet behind the street wall, but on the Threadneedle Street side a central portico stands out over the main entrance (the "front gate"). This structure has in its lower part six pedestalled buttress figures (by Charles Wheeler, R.A.) carrying chains, keys, or cornucopia, and symbolizing strength, security, and abundance. Above them rises a portico with six pairs of Corinthian columns supporting a pediment containing a seated figure between two medallions. The seated

figure is that of a young woman with robes flowing out behind her in fluted folds and bearing on her lap a model of the portico. She may be "The New Lady of Threadneedle Street," and is also the work of Charles Wheeler, R.A. The medallion on the left bears the date of the Bank's foundation, MD CXC IV (1694); that on the right has the date of the work, MCMXXX (1930).

The Bronze Doors

The main entrance doors (eighteen feet high) are in two halves, one representing 1694, the other to-day. The design on the left half has a sailing ship of the period of William III. The right half has, at top, stars representing the Great Bear and the Southern Cross (symbolizing the Northern and Southern Hemispheres) and the Pole Star, recalling Shakespeare's lines in *Julius Cæsar*:

But I am constant as the northern star,
Of whose true-fix'd and resting quality
There is no fellow in the firmament.

Below this is a Hand of Zeus grasping forked lightning to symbolize dynamic power.

On the inside of the balustraded parapet of the Lothbury Courtyard are the original sculptures by Sir Robert Taylor (1714-88), representing Britannia seated by a sack of money, and Soane's four statues symbolizing the four continents (Europe, Asia, Africa, America), some stone vases, and some mural sculpture of floral garlands. These have all been preserved from the old buildings.

The Interior

The stone for the wall-linings came from Hopton Wood Quarry, Derbyshire. Entrance by the Threadneedle Street doors leads into the main hall, which is divided into two parts; the first part rising to a dome below the first floor, the second part rising to a vaulted roof below the third floor. The front hall is ornamented with pillars of black Belgian granite with white Corinthian

capitals. Over the entrance archways to the second vestibule are two clocks having faces of Canadian marble with gilded numerals and hands. One is a twenty-four-hour dial, the other a twelve-hour dial.

The keystones of the arches round the hall are carved with lions' heads—two types. In the centre of the floor is a large mosaic reproducing Benedetto Pistrucci's design for St George (with short sword) slaying the dragon. This was the design for the gold sovereigns of George III, 1817. The roof has a circular inscription carved in the stone, as follows:

DOMUS HAEC REGNO GULLIELMI III REG. FID. DEF.
FUNDATA A.D. MDCXCIV REGNO GEORGII V REG. IMP.
FID. DEF. REFECTA. A.D. MCMXXX.

[This place was founded in the reign of King William III, Defender of the Faith, A.D. 1694, rebuilt in the reign of George V, King-Emperor, Defender of the Faith. A.D. 1930.]

In the centre of the roof is a keystone containing a circular medallion with a carved device of St George (with spear) slaying the dragon.

The passage on the left leads to top-lighted banking halls—the Drawing Office and Bill Office. These offices have designs on the sloping sides of the roof representing heads from classical mythology—Jupiter, Minerva, Vulcan, Pythagoras, Mercury—above the snake-adorned caduceus.

The banking halls on the other side are top-lighted by large central lanterns from the old building of Soane, some raised on Ionic columns, others on caryatid figures. The general style is based on Soane's Dividend Office, Consols Office, and Colonial Office, and the circular medallions have bas-reliefs adapted from those on the Triumphal Arch of Constantine at Rome. These are also preserved from Soane's building.

The vestibule at the back of the entrance hall has, on the left, a wide spiral staircase of stone without visible supports leading from the sub-vault to the sixth floor. The floor below at the foot of this staircase contains an antique Roman mosaic found during excavations at the Bank. On the other side of the vestibule are

six of the Bank's thirty-five lifts. The vestibule has as its main ornament Ionic pillars of pale beige Italian marble. The floor is decorated with numerous mosaics. The central piece is a design showing lions rampant supporting a pillar of gold. Beneath them is a map of the South Coast, the English Channel, and Northern France. In that part of the map representing Kent can be seen a small red stone set among the grey. This indicates the village of Cobham, where the architect, Sir Herbert Baker, resides. The mosaic on the staircase side of the floor shows the head of Minerva and wavy lines (watermark of the small Bank notes) and the fist of Jove grasping the thunderbolt; that on the lifts side shows the head of Medusa and wavy lines with a ship, representing the *Argo* in which Jason and his companions set out to seek the Golden Fleece. On the north and south sides of this vestibule floor are mosaic designs of a well-head with the word 'Puteol,' referring to the well-head in the Forum of classical Rome where the bankers met for business. The walls of the vestibule are inscribed with the names of the members of the Bank staff who served in the Great War of 1914-18, the seventy-one names prefixed with a gilt cross being those of the fallen.

The Venetian windows and glass doors at the back look into the Garden Court with its grass lawns, four trees, and metal boxes for flowers. On the left is the bronze statue by R. R. Goulden, already described at p. 80. This, the Bank's war memorial of 1914-18, reminds us not only of the older generation passing on its duties to the younger but also of the church of St Christopher-le-Stocks on the site of which the present Drawing Office stands.

On the north wall of the first floor above the garden are two niches for life-size statues. One is filled with the figure of Charles Montagu, Commissioner of the Treasury, one of the three founders of the Bank. The other is unfilled: it may eventually contain a statue of Mr Montagu Norman, but

he has left an enduring monument in the world's loveliest bank. . . . In that symphony in mellow stone and enduring metal he feels that he has perpetuated himself.¹

¹ Peter Forrest, in the *Strand Magazine*, March 1943.

The ground-floor corridors are inlaid with mosaic designs (executed, like the others, by Boris Anrep, a Russian craftsman) based on the coinage, commencing with Roman coins and ending with those of King George V. The doorway leading to the private rooms of the Governor and Directors¹ bears above it a carved head of Minerva (goddess of wisdom and the desire to excel) with an owl (*Athene noctua*) on either side. This sculpture is by Mr Charles Wheeler, R.A. The inscription runs:

ΚΙΒΔΗΛΑ ΜΗΔΕΙΣ
ΠΡΟΤΙΘΕΤΩ ΤΕΧΝΗΜΑΤΑ

[Let no one bring us fraudulent devices.]

The mosaic beneath has a double-headed Janus (modelled on the bearded head of Mr Montagu Norman) looking to the past and the future.

¹ The walls of the Court Room Suite are decorated with paintings of subjects connected with the Bank by Mr A. Kingsley Lawrence, R.A., Mr W. T. Monnington, R.A., and Mr Colin Gill. The suite is strictly private, but reproductions of some of the paintings appeared in *The Royal Academy Illustrated* for 1932.

THE BANK AND ENGLISH LITERATURE

A man will turn over half a library to make one book.

DR JOHNSON

Dr Johnson's remark certainly applies to any attempt to trace the connexion between the Bank and English literature. There have been clerks who had an affection for the Bank as fond as that of Charles Lamb for his East India Company, but none could write like Elia.

The Houblons are mentioned in Pepys' diary (written, by the way, thirty years before the Bank was founded); Montagu in Swift's *Journal to Stella* (1710); the effect of the foundation of the Bank in Macaulay's *History of England* (1849-61); the Bank at Grocers' Hall in Addison's *Spectator* (1711) and Defoe's *Tour through Great Britain* (1724); Dr Johnson and little John Payne in Boswell's *Life*. Lamb's *Essays of Elia* (1820-23) have two points of contact with the Bank. In the essay on "The Old Benchers of the Inner Temple" Lamb describes a good-humoured character, Old Twopenny—who, however, was not a Bencher but Stockbroker to the Bank of England. But Lamb mentions the Bank directly in his essay on "The South-Sea House":

Reader, in thy passage from the Bank, where thou hast been receiving thy half-yearly dividends (supposing thou art a lean annuitant like myself). . . .

Thus begins the essay on the office of that great Company which nearly dragged the Bank to destruction in 1718. Cobbett made scornful remarks on the Bank in *Paper versus Gold* (1810) and on Laverstoke Mill in *Rural Rides* (1820-30).

From 1772 to 1821 lived William Barnes Rhodes, who rose to be a Chief Teller at the Bank. Rhodes, who wrote a long burlesque entitled *Bombastes Furioso* in 1810 (though his authorship was not revealed until twelve years later), followed the example of Cervantes at what to-day would be termed 'debunking'

romance. The play ran for twenty-three nights at the Haymarket Theatre. The challenge:

Who dares this pair of boots displace
Must meet Bombastes face to face.
Thus do I challenge all the human race.

is typical of the style of the play.

In Dickens one expects to find some good things about the Bank, but although the Bank is mentioned a dozen times, it is merely as an address, a place on the map. Only once does Dickens use it for a scene, and that a short and not very humorous passage in *Pickwick Papers*, describing the visit of the Wellers to the Bank to transfer some "four and a half per cent. reduced counsels" belonging to the late lamented Mrs Weller. The Gordon Riots are the high point of *Barnaby Rudge*, but the attempt to storm the Bank is not even mentioned. What Harrison Ainsworth did for "Old St Paul's," Dickens might have done for the old buildings of the Bank.

Thackeray mentions the Bank but once, in *The Newcomes*, where he says of Mr Bagshot that he "pays like the Bank of England." Jules Verne brings the Bank into *Round the World in Eighty Days* (1872). Phineas Fogg has a companion described as a Director of the Bank of England, and there is a scene describing the theft of a packet of notes at the Bank.

Robert Browning can hardly be dragged in just because his grandfather was a clerk in the Bank, nor can Cardinal Manning, whose father was Governor from 1812 to 1813. But Manning provided the subject of a major work by a Bank clerk, Edmund Sheridan Purcell, who was on the staff from 1844 to 1876. Purcell (a "Member of the Roman Academy of Letters") was a Catholic. The inside story of how Purcell got the material for his remarkable book is told in the introduction to Shane Leslie's *Henry Edward Manning, his Life and Labours* (1922). Apparently Purcell had done considerable journalistic work for his Faith at a pecuniary loss to himself, and Manning allowed him to write a "brief memoir" to recoup him for his losses. The result was a monumental and enthralling book.

Kipling's reminder that "there ain't no buses runnin' from the Bank to Mandalay," and Arnold Bennett's confession, "My belief is the devil was born somewhere in the City near the Bank of England" (*Lord Raingo*, 1926), are sayings which have gained a kind of permanence. But in Kenneth Grahame (1859-1932) the Bank had an author of quite exceptional quality. Grahame was a Scotsman and joined the staff in 1878. He rose to be Secretary of the Bank from 1898 to 1908. His first book, *Pagan Papers* (1893), differs from its successors. In its particular field it can stand beside Hazlitt or Stevenson. But his other books gave Grahame his special place in fiction: *The Golden Age* (1895), *Dream Days* (1898), and *The Wind in the Willows* (1908).

In the literature of his time Grahame seems sure of his place among the rare few, like Lewis Carroll, Edward Lear, Thackeray, Stevenson, and Barrie, who have revealed to grown-up Olympians the tender hearts and wondering minds, the adventurous spirits and the solemn absurdities of children.¹

Mrs W. L. Courtney recalled her days at the Bank in her book of memoirs, *Recollected in Tranquillity* (1926). As Miss Janet E. Hogarth she was the first Superintendent of Women Clerks, and later became the wife of the Literary Editor of the *Daily Telegraph*. After being Welfare Adviser to the Ministry of Munitions in 1916-17 she received the O.B.E. She wrote:

The Bank was full of the eighteenth century, and even earlier survivals, the dress of its gate-porters, the night watch going round with Guy Fawkes lanterns, the company of the Guard coming at sunset . . . great bars of gold and silver in the fortress-like bullion vaults brought in from Lothbury under guard, under an archway which looked as if it ought to have a portcullis.

Francis Gribble in his book *Seen in Passing* (1929) tells a story about George Moore and a Bank clerk. Hilaire Belloc creates an imaginary Paris branch of the Bank in *If It Had Happened Otherwise*. Supposing, he says, that Drouet had not overtaken Louis XVI and Marie Antoinette on their flight to Varennes? The royal fugitives might have reached England, and England might



"THE YOUNG LADY OF THREADNEEDLE STREET"

Pediment figure by Mr Charles Wheeler, R.A., on the
Threadneedle Street portico.

Fox Photos



SIR JOHN SOANE

Part of the statue in a niche of the Lothbury wall in honour of the architect of the old
Bank. Standing on the left is the sculptor, Sir William Reid Dick, R.A.

Fox Photos



ARIEL

Gilded-bronze figure by Mr Charles Wheeler, R.A., above the Tivoli Temple, at the corner of Lothbury and Princes Street.

By courtesy of the Editor of "The Old Lady of Threadneedle Street"

have suppressed the Revolution, fixing an indemnity of at least £2,000,000 a year, payable at a special branch of the Bank to be opened behind the British Embassy in Paris.

If it had happened otherwise! If, for instance, Charles Lamb had been at the Bank instead of at the East India House! He would have been there in the great days of Abraham Newland and the suspension of cash payments and the return to gold, the death of the guinea and the birth of the sovereign, Bank tokens, and Manning's father as Governor.



1799

MEDALLION FROM A BANK NOTE

A DIORAMA OF ODDS AND ENDS

It is not without significance that at the head of their first cash-book the Bank of England in 1694 inscribed the words *Laus Deo*. The probity of the City of London has been at once the admiration and the safeguard of the world.

LORD MACMILLAN, in the *Sunday Times*, August 22, 1943

Bank Notes

The earliest Bank of England notes were written by hand and were mostly for £50 each, none for less than £20. The first notes printed from copper plates were issued in 1695, the amount and signature being written in by hand, and each note was signed by hand until the Act of 1858. Notes for £10 and £15 were first issued in 1759, and five-pound notes in 1793, while pound and two-pound notes began in 1797. The first £1000 notes were issued in 1802. Bank notes were issued also by the branches. In 1881 it was estimated that the stock of "paid notes" for the past five years would, if placed side by side, almost cover Hyde Park and weigh over ninety tons. The first printed Bank of England notes were made of paper bought from a stationer. As they were easily forged they were soon called in, and the next issue was printed on paper made at Sutton Mills, Abingdon. These had no watermark, and the paper was made on a laid-wire mould.

The familiar white Bank of England notes of £5 and upward are printed from electrotypes plates on pure rag paper of the sort manufactured for over two hundred years at Laverstoke Mill, near Whitchurch, Hants, by Portals, Ltd., the successors of Henri Portal, a Huguenot refugee, who in 1724 was appointed paper-maker to the Bank. His watermarked paper for notes was first used in 1725, and for a hundred years a Bank official resided at Laverstoke to watch over the paper-making.

The paper for these large notes is made in strips, each the size of two notes, with deckle edges. The strip is cut in the middle, giving each note one cut side and three deckle sides, usually with a

notch. The medallion showing a figure of Britannia seated beside a skep or straw-plaited beehive is the work of Daniel Maclise, R.A. There have been many designs for the Bank's medallion, and each has generally contained the figure of Britannia facing to the left, bareheaded, carrying a sprig or olive-branch, a spear instead of a trident, the cross of St George instead of the Union Jack on her shield, and (before 1854) no suggestion of sea in the background.

The written part of the note was the work of Beckett, the Bank's engraver, in 1855. The notes for £5 and over are signed on behalf of "the Gov^r and Comp^a of the Bank of England." Samuel Butler in his book *Alps and Sanctuaries of Piedmont* (1881) wrote: "Take up a Bank of England note and the Italian language will be found still lingering upon it. It is signed 'For Bank of England and Comp^a' (Compagnia), not Company." But the official explanation of the use of Comp^a is that it is the natural way of abbreviating the word, a happy compromise between the full form "Company" and the ridiculously short "Co." The Bank's notes have been the subject of forgery ever since they began, but the Bank relies for protection mainly on the pure watermarked paper, for which reason "although the workmanship should be of the best, the design could not be too simple." Until the end of the war of 1914-18 the notes were printed inside the old Bank itself, but since 1919 they have all been printed at St Luke's Printing Works, Old Street, London.

One-thousand-pound notes were the highest ever issued to the public. Notes for £100,000 each still exist, but as 'dummies' for internal circulation only (balancing accounts in the Bank's Treasury). There was a £1,000,000 note made for use in Japan, but only one and for a special purpose. It is now in the Bank's Museum. The notes for £200 were discontinued in 1928, and the issue of all notes for sums above £5 ceased in April 1943.

Damaged Bank notes, whose dates or serial numbers are still legible, can be replaced by new ones on application to the Issue Office, an expert service which is free to the public. The following remarks apply to notes for £5 and over. After the air raids of 1940-41 notes completely charred arrived on trays, yet many were still identifiable. Notes nibbled by mice, notes chewed up

by the dog, notes rescued from the belly of a cow, set difficult problems of identification. Some people buried their notes (even up to their whole life-savings) in their Anderson shelters and then left home for many months, returning to find the 'Anderson' waterlogged and the notes almost unrecognizable. They sent the scraps of discoloured paper as a sort of super jigsaw puzzle to the Issue Office. One man left nineteen £5 notes in the pocket of his factory overall, which went to the laundry. The notes returned in a thousand fragments, but were sent in for replacement. Many were identified, but the task of solving such Chinese puzzles takes days of niggling work—and not a penny is charged for it.

The net profit on the note issue is paid over to the Treasury. The profits paid over during the three financial years ending March 31, 1943, are given in Hansard for May 4, 1943, as follows:

To March 31, 1941	£8,900,000
To March 31, 1942	£7,600,000
To March 31, 1943	£9,100,000

The amount of notes *in circulation* from 1939 to 1944 is given officially as follows:

August 30, 1939	£529,499,000
March 6, 1940	534,296,000
September 4, 1940	609,997,000
March 5, 1941	607,278,000
September 3, 1941	667,258,000
March 4, 1942	751,478,000
September 2, 1942	830,017,000
April 7, 1943	939,911,000
September 9, 1943	978,742,612
November 4, 1943	1,005,063,000
March 8, 1944	1,090,601,022

The National Debt

The National Debt consists of two parts: (1) funded or long-term debt, and (2) unfunded, short-term and floating debt. The power to manage the National Debt on behalf of the Government is given by the National Debt Act of 1870 (see p. 68), but actually the Bank's management of the National Debt goes back to 1750.

GROWTH OF THE NATIONAL DEBT

DATE	NATIONAL DEBT	EVENTS
1688	£ 644,000	The "King's Debt" of Charles II and James II "incorporated" by William III.
1698	16,000,000	End of William III's wars in Flanders.
1714	54,000,000	End of Marlborough's campaigns.
1763	132,000,000	End of Seven Years War.
1775	130,000,000	Commencement of American War of Independence.
1784	250,000,000	Year after War of Independence.
1793	239,000,000	Commencement of wars with France.
1816	846,000,000	Year after wars with France.
1854	795,000,000	Commencement of Crimean War.
1857	828,000,000	Year after Crimean War.
1899	628,000,000	Commencement of South African War.
1903	771,000,000	Year after South African War.
1914	650,000,000	Commencement of War of 1914-18.
1915	1,105,000,000	
1916	2,133,000,000	
1917	4,011,000,000	
1918	5,872,000,000	
1919	7,435,000,000	Year after War of 1914-18.
1920	7,829,000,000	
1921	7,574,000,000	
1931	7,413,000,000	
1935	7,800,000,000	
1937	7,797,000,000	
1939	8,163,000,000	Commencement of Second World War.
1940	8,932,000,000	
1941	11,399,000,000	
1942		
(August 31)	15,247,000,000	
1943		
(August 31)	18,126,000,000	
(December 31)	19,237,000,000	

The Government Debt to the Bank

By the Bank Act of 1742 the Charter of the Bank must not be terminated unless the Government pays the whole of its debt to the Bank. The annual "Finance Accounts of the United Kingdom" always show an abbreviated summary of the Government's debt to the Bank as part of the National Debt. The actual figures, as given by a former Chief Accountant of the Bank before a Parliamentary Commission, are as follows:

		£	s.	d.	
1694	5 & 6 W. & M. c. 20	1,200,000			Loan on Annuity of £100,000.
1709	7 Anne, c. 30				
	8 Anne, c. 1	400,000			Loan on original Annuity (rate of interest reduced).
1710	7 Anne, c. 30	1,775,027	17	10	Exchequer bills cancelled.
1717-8	3 Geo. I, c. 8	2,000,000			Exchequer bills cancelled.
1722	8 Geo. I, c. 21	4,000,000			Government debt to South Sea Company, at 5 per cent. interest, purchased at 105 per cent.
1728	1 Geo. II, c. 28	1,750,000			Loan at 4 per cent.
		11,125,027	17	10	
1728	1 Geo. II, c. 28	1,000,000			Repayment.
		10,125,027	17	10	
1729	2 Geo. II, c. 3	1,250,000			Loan at 4 per cent.
		11,375,027	17	10	
1729	2 Geo. II, c. 3	1,275,027	17	10	Repayment.
		10,100,000			
1738	11 Geo. II, c. 27	1,000,000			Repayment.
		9,100,000			
1742	15 Geo. II, c. 13	1,600,000			Loan on original Annuity (interest reduced).
1746	19 Geo. II, c. 6	986,800			Exchequer bills cancelled.
1816	56 Geo. III, c. 96	3,000,000			Loan at 3 per cent.
		14,686,800			
1834	3 & 4 Wm. IV, c. 98, and 4 & 5 Wm. IV, c. 80	3,671,700			Repayment of one-quarter part.
		£11,015,100			

The Capital of the Bank¹

	£	s.	d.	
1694	1,200,000			Subscribed in cash.
1697	+ 1,001,171	10		Subscribed in tallies and notes.
	2,201,171	10		
	- 1,001,171	10		Repayment.
	1,200,000			
1707-8	+ 1,100,585	15		Call of 50 per cent. on £2,201,171 10s.
	- 99,414	5		Returned to adjust capital sum.
	2,201,171	10		

¹ See *History of the Earlier Years of the Funded Debt, 1694-1786*, published by H.M. Stationery Office (1898).

	£	s.	d.	
1707-8	2,201,171	10		
	+ 2,201,171	10		Doubled under 7 Anne c. 7.
	4,402,343			
1709	+ 656,204	1	9	Call of 15 per cent. to advance £400,000 to Government.
	5,058,547	1	9	
1710	+ 501,448	12	11	10 per cent. call to cancel Exchequer bills.
	5,559,995	14	8	
1722	+ 3,400,000			To purchase South Sea Company stock.
	8,959,995	14	8	
1742	+ 840,004	5	4	To cover balance of loan to Government.
	9,800,000			
1746	+ 980,000			10 per cent. call to cancel Exchequer bills.
	10,780,000			
1781	+ 862,400			8 per cent. call to put capital almost on par with Government debt.
	11,642,400			
1816	+ 2,910,600			Out of profits (Rest) partly to cover £3,000,000 loan to Government.
	£14,553,000			

Branches of the Bank

1. Gloucester (opened 1826; closed 1848).
2. Manchester (opened 1826) (architect: Cockerell).
3. Swansea (opened 1826; closed 1859).
4. Birmingham (opened 1826).
5. Liverpool (opened 1827) (architect: Cockerell).
6. Leeds (opened 1827).
7. Exeter (opened 1827; closed 1834).
8. Newcastle-on-Tyne (opened 1828).
9. Hull (opened 1829; closed 1938).
10. Norwich (opened 1829; closed 1852).
11. Plymouth (opened 1834; damaged by bomb 1941).
12. Portsmouth (opened 1834; closed 1914).
13. Leicester (opened 1843; closed 1872).
14. Western Branch, Burlington Gardens, W. (opened 1855; sold to Royal Bank of Scotland).¹

¹ Formerly Uxbridge House, built in 1792 by Vardy for the first Earl of Uxbridge, whose son (a cavalry leader at Waterloo) became Marquis of Anglesey. At the latter's death in 1854 the house was sold to the Bank of England. In 1856 the Court suggested that part of the house should be the official residence of the Governor, but this proposal was never carried into effect. It is a fine building still occupied by the Royal Bank of Scotland.

15. Law Courts, Strand (opened 1888) (architect: Sir Arthur Blomfield).

16. Southampton (opened 1941) (architect: V. Heal).

The Bank's Plate

The Bank possesses some silver of artistic and historic interest, practically all of it of London workmanship and much of it acquired by generous donation. The most interesting object is the Houblon tankard, presented to the first Governor, Sir John Houblon, by the Directors in 1696 "in token of his great ability, industry and strict uprightness at a time of extreme difficulty." It is hall-marked 1695 and weighs $23\frac{1}{2}$ oz. Sir John died without sons, and the tankard passed to his descendants and then disappeared. Later it was bought in London by an American, taken to New York, and sold to the Loan Committee of the New York Clearing House, who added an inscription and presented it to their Chairman in gratitude for his services to them. At his death it returned to the New York Clearing House, and in 1924 the New York Clearing House Association presented it to the Bank of England. Another historic silver tankard was bequeathed to the Bank in 1943 by the American banker, Mr Pierpont Morgan. It is dated 1692 and was given in that year by Queen Mary to Captain Janszen in recognition of his skilful seamanship, which saved the life of King William III during a voyage to Holland. The largest and heaviest piece of silver is a wine cistern in which bottles were cooled. This richly ornamented piece, on 'claw and ball' feet, weighs $616\frac{1}{2}$ oz. and dates from 1694. Among other objects are a rose-water basin of 1697, a coffee-pot of 1704, and a wall-sconce of 1699. The wall-sconce ($11\frac{1}{2}$ inches high) consists of a reflector-plate embossed with a cherub's head set in an elaborate floral design, with a candle-socket in the pan beneath. There are six other tankards, seventeen cups and mugs, several salvers (all of 1694-99, one weighing over 32 oz.), numerous candlesticks (some weighing 26 oz. each), sifters, spoons, heads of porters' staves, a magnificent inkstand (103 oz.) of 1733 made for a brother of Sir Merrik Burrell (Governor 1758-60), and two jugs (26 oz. each) of 1716, formerly the property of the Vicars Choral of Hereford Cathedral.

The Bank Guard and Volunteer Corps

The well-known London spectacle of a picket of the King's Guard marching from Wellington Barracks to the Bank at dusk to mount guard during the night had its origin in the Gordon Riots of 1780, when the Government sent 534 soldiers to defend the building, and it was agreed that a permanent nightly guard should be provided thereafter by the Government. A lieutenant and two sergeants accompanied the fifty men who formed "the inlying picquet at the Bank." In those days of rough manners and bad roads the soldiers walked two abreast on the pavement, pushing civilians into the roadway, and when the Lord Mayor went in person to protest against such conduct he was uncere- moniously pushed into the road by the officer in charge. There- upon the Bank threatened to leave Threadneedle Street and move into Somerset House if this "arrogant behaviour" persisted.

During the wars of the last fifty years the duties of the "inlying picquet" of the Guards have been performed by older classes of soldiers from the Honourable Artillery Company. In April 1942 the guard duties were taken over by 'Blue Caps' of the Corps of Military Police.

The Bank Volunteer Corps was formed in 1798, when an inva- sion by the French seemed imminent; 503 clerks enlisted, among the officers being the father ¹ of Cardinal Manning. Soane, the architect, was Quartermaster. The Corps was disbanded in 1814, but some officers and men offered to spend a night in rota- tion at the Bank to see that the gates were shut and fire precautions kept in order. From this grew the custom that every night the Bank is in charge of "The Official," "the Deputy Official," and "the Superintendent of the Nightly Watch"; duties performed in rotation by senior members of the staff nominated for this task.

¹ A Director, not a clerk; later Governor, 1812-13.

Statistical Tables of the Banking and Issue Departments

1. BANKING DEPARTMENT

(Figures, average of Wednesdays, in millions of £)

YEAR	DEPOSITS				SECURITIES				
	PUBLIC	BANKERS	OTHER AC- COUNTS	TOTAL	GOVERN- MENT	DIS- COUNTS AND AD- VANCES	OTHER AC- COUNTS	TOTAL	RESERVE OF NOTES AND COIN
1939	21·3	102·5	38·0	161·9	107·0	8·5	22·9	138·4	41·5
1940	27·3	110·3	47·4	185·0	141·4	4·2	22·9	168·5	34·4
1941	16·7	122·6	52·9	192·3	144·4	9·6	21·2	175·2	35·0
1942	10·8	136·9	49·8	197·5	150·3	5·4	22·4	178·1	37·3
1943	8·7	158·9	55·8	223·4	179·8	4·4	19·1	203·3	38·0
1944 (Jan. 19)	11·0	177·0	53·0	241·0	204·6	4·8	16·0	225·4	33·5

2. ISSUE DEPARTMENT

(Figures, average of Wednesdays, in millions of £)

YEAR	NOTES IN CIRCULA- TION	NOTES IN BANKING DEPART- MENT	GOVERN- MENT SECURITIES	OTHER SECURITIES	SILVER COIN	GOLD COIN AND BULLION
1939	507·3	40·6	401·7	1·3	·6	232·8 (Mar. to Aug.) ·2 (Sept. to Dec.)
1940	574·7	33·4	604·1	3·4	·4	·2
1941	652·2	33·7	682·9	2·6	·2	·2
1942	808·3	36·4	842·1	1·7	·6	·2
1943	966·3	36·8	1002·0	·8	—	·2
1944 (Jan. 19)	1067·4	32·9	1099·3	·7	—	·2

GLOSSARY

BANK RATE: Advertised minimum rate (fixed every Thursday) at which Bank of England will discount approved bills of exchange (not having more than three months to run).

FIDUCIARY ISSUE: That part of the Bank's note issue made against approved securities, as distinguished from that part (if any) covered by gold.

GOLD STANDARD: Value of gold, and therefore of pound sterling, fixed in 1816. Pound sterling, formerly 1lb. weight of silver, became a gold coin (sovereign) weighing 3 pennyweights 3.374 grains made from gold eleven-twelfths fine (22 carats) at the price of £3 17s. 10½d. per oz. At that standard price Bank of England had to sell gold, and that standard (protected by Bank Rate) endured in a free market until 1914. Resumed in 1925, when price of bullion gold (but not coined gold) was fixed at old parity.

KEYNES PLAN: "The principal object can be explained in a sentence: to provide that money earned by selling goods in one country can be spent on purchasing the products of any other country. In jargon, a system of multilateral clearing. In English, a universal currency valid for trade transactions in all the world. Everything else in the plan is ancillary to that." (Lord Keynes, in the House of Lords. May 18, 1943.)

LOTHBURY: Once the 'bury' or estate of Albertus Lotharingus (Albert of Lorraine), a Canon of St Paul's at the time of the Norman Conquest.

MANAGED CURRENCY: Inconvertible note issue 'managed' by regulating value of currency and credit (Bank Rate, Exchange Fund, open market operations, tariffs, quotas, etc.) to maintain stability in prices or exchanges.

OLD LADY OF THREADNEEDLE STREET: Probably refers to the figure on the Bank's seal ("Britania sitting & looking on a Bank of mony").

PRINCES STREET: Probably named after Prince Rupert (well known and popular in London), first Governor of Hudson's Bay Company. First mentioned January 1674.

TALLY: Willow stick about five feet long and one inch broad, notched to indicate sums advanced to Government. Split down middle, one half going to lender. Tallies abolished in 1782.

THREADNEEDLE STREET: Once "Three Needle Street," from the needle-

makers who worked there. Coat of arms of the Needlemakers' Company was "Three needles in fess, argent."

USURY: Held by the Church to be forbidden by Exodus, xxii, 25, and Neh. v, 7-11. First prohibited in England by Theodore of Tarsus, Archbishop of Canterbury (seventh century), who fixed penalty of three years' penance (first year on bread and water). Prohibited by Parliament in 1341. Until fifteenth century Christians forbidden to receive interest on money. Hence Jews only usurers. Interest rate fixed at 10 per cent. in 1545 (Henry VIII), repealed by Edward VI. Declared in Act of 1571 (Elizabeth) to be "forbidden by the law of God, in its nature sin, and detestable." Fixed at 8 per cent. in 1623 (James I), lowered by Commonwealth in 1652 to 6 per cent., by Anne in 1713 to 5 per cent. Priority exemption given to Bank of England in 1716. Restraint relaxed 1833-39 and abolished in 1854. But "For blatant usury to-day look at the properly called money-lenders in primitive communities. There the peasants, free from an organized banking system, bask in their poverty." ¹

¹ A.C.D., in *The Old Lady of Threadneedle Street*, December 1943.



1805

MEDALLION FROM A TWO-POUND BANK NOTE

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1809-55

MEDALLION FOR BANK NOTES OF ALL DENOMINATIONS

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